★ SPECULATIVE FORCES GOING TO EXTREMES ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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Impact on the Dollar of $80 BILLION FEDERAL SPENDING EVERY YEAR — FOR 5 YEARS
By Michael Stephen

1958 *Mid-Year Dividend Forecasts*
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CAN STEEL INDUSTRY Maintain Its Pace?
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Major Reappraisal of CHEMICALS and DRUGS
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Exclusive...
FIRST-HAND REPORT IN DEPTH — ON THE EMERGING PROBLEMS OF THE AIRLINES
By Allen M. Smythe

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SPECIFIC LEGISLATIVE GAINS — AND WHERE CONGRESS LEFT US HOLDING THE BAG
By James J. Butler

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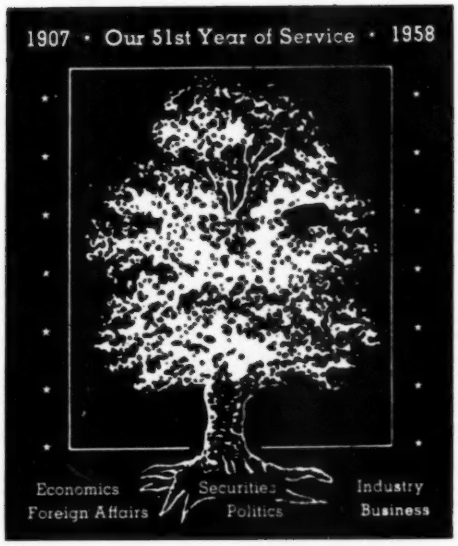
# THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

SOVIET PRESS DERIDES CONGRESSIONAL SHOWING . . . Pravda and Izvestia tried to capitalize on our general discontent with the legislative record of the 85th Congress, by charging that "not a single promise given to the voters two years ago has been lived up to." Of course, as was to be expected, they attribute this lack to a small clique of "monopolies" instead of the politics of an election year.

But regardless of where the real responsibility lies, the fact remains that the projects most heavily publicized, and from which the greatest national hopes and aspirations arose, were among those which our legislative housekeepers swept under the rug.

What, for example, became of the inquiry into monetary and fiscal policies, issues of far-reaching importance in the light of the vast changes that have taken place in our economy since the advent of the New Deal. The answer to the query is that tne project is dormant — if not dead. Congress, it will be recalled, refused to go along with President Eisenhower's recommendation for a study to be made by "outside" experts. Instead, Senator Harry F. Byrd grabbed the ball, carried it in a brief series of flashy rushes, then walked off the field. Byrd's finance committee conducted hearings for one month, submitted heavy-handed questionnaires to outstanding economists, published their replies in several printed documents, then let the matter drop. Even the committee staff assigned to the chore was disbanded. No recommendations, legislative or otherwise, have come out of the inquiry. None is likely to appear.

The record in the monetary study was duplicated, in point of lost motion, by the fumbling in planning a direct and heavy attack on this year's recession. When the time came for action, Congress appeared unable to meet the threat with any thinking more up-to-date than outworn and outmoded New Deal formulas: tax reduction, "made work," huge public works and building projects. Some government spending was accelerated, but Ike successfully resisted tax reduction that would have worsened and prolonged the recession. But the lamentable point is this: Congress had no new ideas to present—based on recognition of the broad changes resulting from a new type economy dependent on government spending to maintain full employment and high productivity. Our legislators merely dusted off and brought out the ancient panaceas; When these were rejected, it battened down tne hatches and rode out the storm.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

No new formulas were tested, or even suggested. There was no original thinking. The laboratory was there, but the imagination was not. No lessons had been learned. If a new recession appears next year or at some future time, Congress will be as helpless as ever, unprepared with any new plans for solving our problems.

The lost causes and opportunities missed include the failure of Congress to rewrite the tax laws, which have been put together in bits and pieces. They made no serious effort to remove tax inequities and loopholes, which create such an unhealthy psychology among taxpayers and makes our citizens see red.

And, topping it all, is the refusal of Congress, ("failure" is not the word here), to enact laws that would give the rank-and-file of union membership a taste of democracy, which was the corner-stone of our form of government, as visioned by Our Fathers. Nor did they take steps to clamp down on the super-government of hoodlum-led unions—nor pass laws with teeth to enforce full public accounting of the income and outgo of all union and pension funds. Nor was there a serious attempt to generally control the continuing encroachment of union leadership on our economy, so that we can avoid unnecessary inflationary pressures and give the country a chance to take the steps needed to solve our financial and fiscal problems—problems which are leading to heavily laden government expenditures—and, in turn, to dangerous deficits, which will either have to be met by almost confiscatory taxation—or enormous deficit borrowing that will eventually undermine the dollar.

See our story in this issue on "Specific Legislative Gains—and Where Congress Left Us Holding the Bag" by James J. Butler — as well as "Impact on the Dollar of $80 Billion Federal Spending Every Year—for 5 Years," by Michael Stephen.

EDITOR'S NOTE: *In the following editorial Charles Benedict shows why Red China and Russia would find it impractical to fight now.*

GUILE THE MOTIVATING FORCE . . . There can be no peace so long as the leadership — a few men in key spots around the world — are thinking in terms of conquest and control — with no interest in the millions of people except as cannon fodder.

They hold sway over the masses through control of their minds — a process that is not lasting — for eventually an awakening comes, bringing in its train the sharp bitterness of disillusionment. As Lincoln said, "You can fool all of the people some of the time, and some of the people all of the time. But you can't fool all the people — all of the time."

So cynical has the average man become after observing the tactics of the higher-ups that he believes the only way to get along is by trickery and chicanery, and his lack of confidence is approaching a stage where no leader is secure. And when that happens the "boiling-over" point is close at hand. No one is sacred, for rulers began to lose their lofty eminence with the first assassination.

The hopped-up call to arms for "liberation" of races is now being recognized as a fraud by the masses all over the world. No one believes in the sincerity of Red China's faked emotionalism for union with their "brothers" in Formosa. It is recognized as being merely the hypocritical excuse for blatant and outright aggression. Will the Soviet Union further the Red China cause with sincerity—and how far?

Undoubtedly after looking the scene over, the Russians, who are past-masters in the art, must be wondering how soon Mao Tse-Tung, if he succeeds in Formosa, will want to "liberate" the Mongols and the Chinese under Russian rule. Also, whether and when Nasser will decide that the Arab people in the Soviet Union must be "liberated", giving as an excuse the "brutality with which they are being handled by the Communist government."

It seems certain that this has already given Khrushchev and the Presidium in Soviet Russia food for thought, so that they might long for the breath of fresh air that dealing with the United States would bring to a conference, for they well know we have no territorial ambitions.

At the same time, I doubt very much whether Red China will want to precipitate a full-scale war, for it would undoubtedly mean the destruction of the growing industrialization that was built so laboriously and under such hardships and handicaps. And I wonder, too, whether Russia will be willing to back up Mao Tse-Tung with the vast quantities of materiel that would be required in a Red China war with the United States, and take the chances of seriously weakening her own position. To do so would mean an intensification of Russia's heavy industrial program that would cut back her civilian production, once again at a time when her people are expecting a greater share of output to be devoted to consumer goods. Too, it would make Russia vulnerable and bring a new surge of discontent to the satellite areas of Poland, Hungary and East Germany. All together, Soviet Union participation on the side of Red China would be very unpopular, for I doubt the Russian people would be willing to make sacrifices for their Chinese Comrades whose 600,000,000 population already triples that of the Soviet Union.

As far as we are concerned, it must be clear that we have to make a stand somewhere, or be overwhelmed finally, when Red China, with her prodigious man power, is ready to strike. Formosa would be the first step, then Japan and the Philippines. After that the deluge.

We can charge off as short-sighted self-interst the British point of view regarding our decision to stand with Nationalist China for, in the long run they are bound to lose out. For one thing, Britain recognized Red China purely for purposes of trade, and, in light of the world economic situation, wants no change in Hongkong at the present time. Thus the atmosphere of appeasement — which has failed in the past and brought about a gradual decline in Britain's fortunes — still persists in the present government, which is willy-nilly seeking to preserve the status quo and is torn between the temporary trade advantage — the emergence of the pound sterling — and the realities of the world situation.

I quote from a letter just received from London—which says—"The people in power here seem to have neither aims nor aspirations. When MacMillan went to Turkey and Greece recently I was reminded of Chamberlain's visit to Hitler, and his coming back sure of "Peace in *(Please turn to page 712)*

As I See It!

By Michael Stephen

THE BOLD AND SOLID STEPS NEEDED TO SOLVE TREASURY'S DEBT DILEMMA

THE U. S. Treasury faces unprecedentedly difficult financing problems in the years ahead. First necessity is to raise cash to cover budget deficits of $12 billion in current fiscal '59 and about $6 billion in fiscal '60. Hardly less pressing is the need to cover cash redemptions of Savings bonds, now exceeding sales by about $3 billion a year. Finally there is the task of refinancing no less than $46 billion marketable certificates, notes and bonds within the next year and $116 billion in five years, not to mention maintaining a market for $22 billion Treasury bills.

The seriousness of the problem is suggested by the near-failure of the $16.3 billion August refunding and the current concern in the Treasury over how to raise $4 to $5 billion cash in October to cover deficits immediately ahead. With business recovery underway, the Treasury will have to compete with record demands for money from business, State and local governments and the mortgage market.

The task threatens to be even more difficult than financing World War II. In war financing the Treasury had the full support of the Federal Reserve's powers of money creation to build and maintain a receptive market, the refunding problem was far smaller, and people had patriotic motivation to buy Treasury securities. Furthermore, there was not the concern over the effects of inflation that we have today.

If we don't find some way of cutting down the size of the Treasury's financing problem, or of making Treasury securities more attractive, the government is going to find that 1957—when debt managers sweated blood trying to cover cash needs in the tightest money market in a generation—was a picnic compared to what is coming.

What is even worse, the Federal Reserve may be so preoccupied with making sure that the Government's cash needs are met, that it will be unable to effectively carry out its job of defending the nation against inflation and further shrinkage of the dollar.

The Last Days of Pompeii

"With apologies to Dowling"

The Canadian Solution

Many people have been impressed by the way the Canadian Government met a similar problem. Facing a deficit, a heavy concentration of early debt maturities and a weakening bond market, the Canadian Government on July 14 launched a refunding plan involving about 45% of the $14 billion Canadian national debt.

Holders of $6.4 billion 3% Victory bonds issued during World War II and due from 1959 to 1966 were offered four noncallable securities ranging in term from 3%—with maturities up to 25 years. No investor was permitted to exchange into a maturity shorter than he already held. The bonds which were offered in exchange (with cash bonuses of up to $19.90 per $1,000 as additional incentive are 4½s due September 1983, 4¼s due September 1972, 3¾s due September 1965 and 3s due in December 1961.

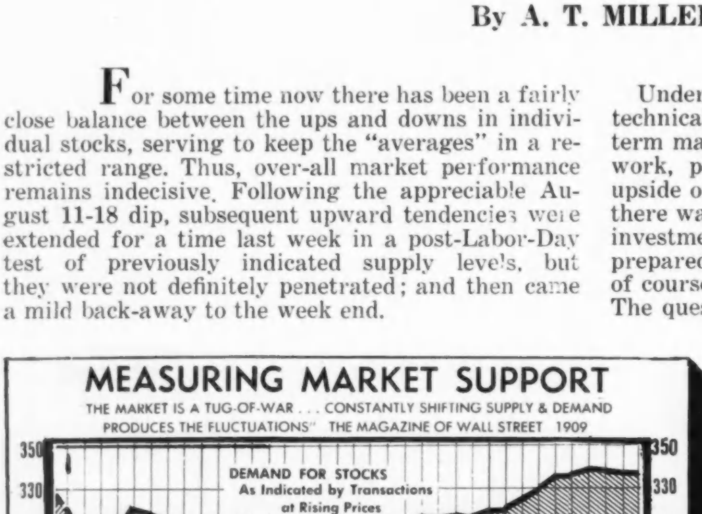
With subscription books not slated to close until September 15, more than 70% of the eligible bonds have already been exchanged. The greatest public interest has been in the new 4½s, the most attractive rate offered by the Canadian Government since 1932 and one which looks good to conservative investors even in an inflationary age. This clears the decks of refunding problems for years ahead, leaving the Bank of Canada *(Please turn to page 710)*

Speculative Forces Going To Extremes

Stock prices are too far ahead of improvement in company earnings and dividends to have sound basis for much more general rise at present; and the Far-East uncertainty is factor that must still be watched. Market correction could be provided via further consolidation or a reaction. We advise a carefully selective investment policy.

By A. T. MILLER

For some time now there has been a fairly close balance between the ups and downs in individual stocks, serving to keep the "averages" in a restricted range. Thus, over-all market performance remains indecisive. Following the appreciable August 11-18 dip, subsequent upward tendencies were extended for a time last week in a post-Labor-Day test of previously indicated supply levels, but they were not definitely penetrated; and then came a mild back-away to the week end.



Under any circumstances, such behavior around a technically significant test level would make near-term market possibilities largely a matter of guesswork, pending the development of more positive upside or downside forces. In recent days, however, there was additional and more important reason for investment hesitation in the latest foreign crisis prepared and staged by the Communists. This time, of course, in the Far East.

The question was whether the United States would risk war to keep Quemoy and Matsu, both within sight of the China mainland, in the hands of the free-Chinese forces built up and sponsored by us, or back out with a humiliating loss of face. It was answered boldly in action revealed in the course of the week end, with the Chinese reds seemingly backing down to "cool off" the crisis in at least a temporary play for time, counting on stepped-up propaganda warfare to keep the tension high. But the outcome is not too clear. If stymied at one point, the Reds press somewhere else. We evidently have to get used to recurrent crises.

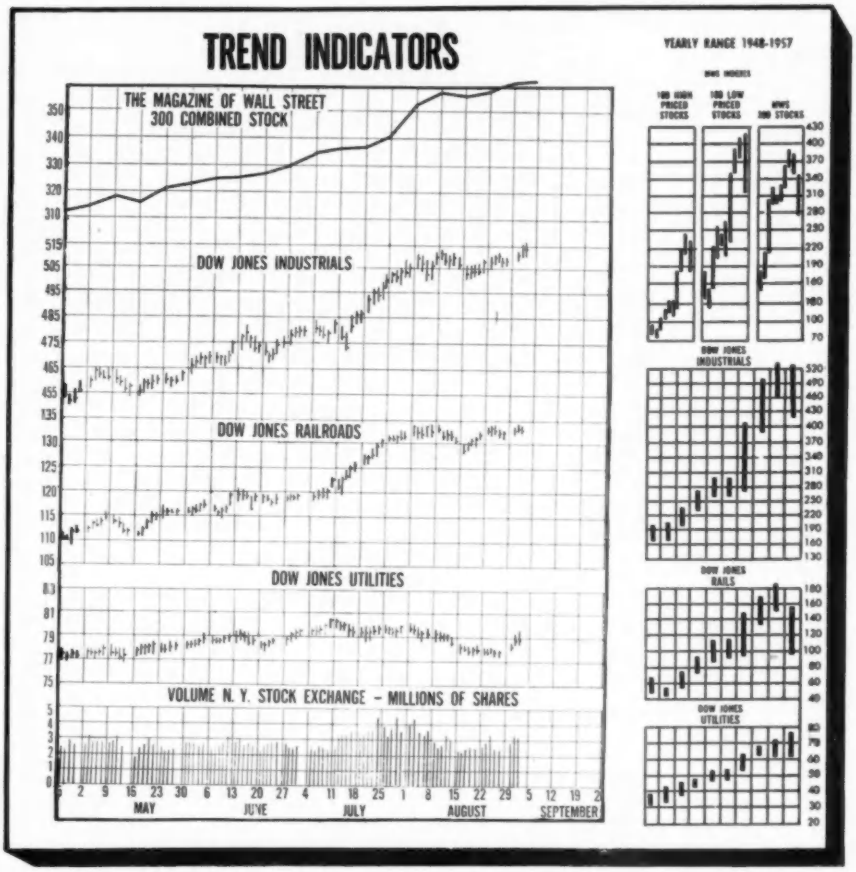
The Technical Pattern

How does the market's recent technical pattern shape up to date? It depends on what stock-price averages or indexes you measure by — but since the differences among them are not wide, the basis for "trend interpretation" is tenuous in any event. The Dow industrial average reached a recovery high of 512.42 on August 11 and, before faltering late last week, managed to better it by a thin 1.29 points as of September 3. But, at best recent levels, some other and broader measures of industrial stock prices remained a shade under the early-August high.

The Dow rail average attained a recovery high of 134.10 on August 4, and

remained a fraction under it in the best post-Labor-Day performance to date. Against that, other rail averages or indexes recorded August 11 recovery highs and topped them by fractions at one time last week. Well, why split hairs? At least for the time being, upside resistance has been tentatively indicated.

The utility list recorded its 1957-1958 high nearly two months ago on July 11. It has since remained in a fairly narrow range; but, despite the handicap of higher money rates, it has perked up a bit recently as some investment buyers have shifted to conservatism.



Compared with the situation in the late-1957 and early-1958 phases of the rise in stock prices, the market has become progressively more speculative. That is evident in the active gyrations — mainly generated by professional traders and in some cases involving big-shot corporate operators — in low-priced stocks either in the cat-and-dog class or not greatly above it. Examples include Artloom, Continental Motors, Seagrave, Babbitt, Studebaker-Packard, Fruehauf Trailer, US Hoffman Machinery.

Of course, that is only part of the story of the market. There is investment buying of good-name stocks by institutional funds, even if a bit less of it on balance at the moment. There is nothing wrong with that — or is there? Under the remarkable modern version of prudent investment, an individual buys shares of a mutual fund and thus dodges the responsibility of judging stock values. The mutual fund uses its vaunted professional know-how mainly to dollar-average in stocks so well known that selections would seemingly require neither much imagination nor too extensive investigation. And since it is dollar-averaging in "good" stocks, the prosaic question whether a given price-earnings ratio is too high, a prevailing dividend yield too low, need not be too bothersome.

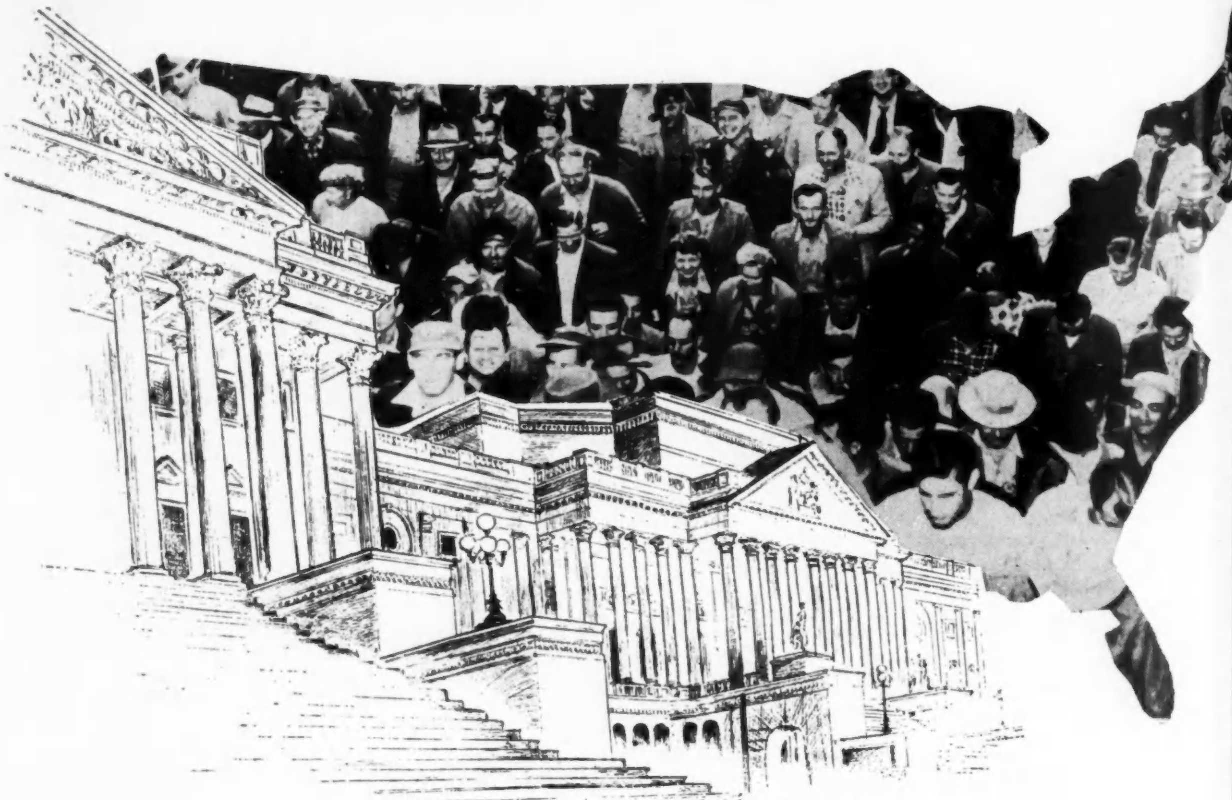
Average cash dividend yield of representative industrial stocks is now under 3.7% and is below bond yield for the first time in a great many years. Seasoned corporate bonds average around 3.9% in yield, new-issue bonds well above that. It is argued that you can forget this yardstick because of inflation. Perhaps so, to some extent, since market yardsticks do stretch with the times.

Assume for the argument that there is more inflation ahead, of unknown speed and scope, regardless of the excess in industrial capacity, competitive consumer goods markets, restrictive official credit moves, etc. Since when has inflation guaranteed growth of company profits and dividends? Profits have, in fact, been squeezed by wage-price inflation. If actual or potential inflation means an endless price rise for common stocks, why did the market fall so considerably in 1946-1947, 1948-1949, 1953 and 1957? At least on a medium-term view, there can certainly be more risk in stocks than in money.

The Business And Profit Outlook

The primary forces in the current business revival are the rise in total governmental spending and in consumer spending for soft goods and services, plus a markedly reduced rate of liquidation of business inventories. A partial recovery is one thing. A boom, to validate a boom-level stock market, is another. With an eye on automobiles and capital goods, we do not see a boom in 1959 in business volume and profits.

Fourth-quarter industrial profits might be something like 20% above the poorest recent levels — or around an annual-rate of, say, $27.50 on the Dow average, against 1957's full-year $36.08. But the average is less than 2% under its 1956-1957 triple-top and the P-E ratio on the projected fourth-quarter profit rate is about 18.7 times. That is a rather high valuation, making a careful, selective policy sound commonsense — Monday, Sept. 8.



Impact on the Dollar of

$80 BILLION FEDERAL SPENDING EVERY YEAR—FOR YEARS

By MICHAEL STEPHEN

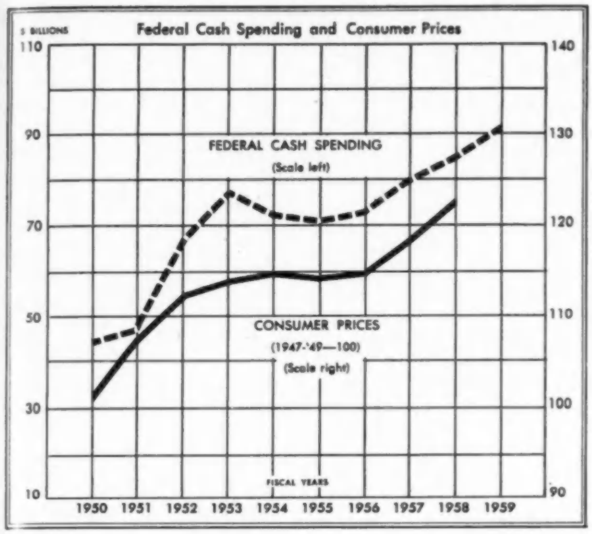
AN APPRAISAL AND PROJECTION . . .

- **Current economic position—and business outlook**
- **Fallacious reasoning that bases 1965 excess capacity on 1955 production**
- **Administered prices—new spate of price mark-ups—projecting price trend in the making**
- **Dynamic inflationary force behind government spending**
- **Do American people face crisis of new taxation?**
- **Inflation psychology—investment position of common stocks—bonds**
- **Why rise in the price of gold is the most obvious signal of inflation**
- **Pressure from foreign nations—concessions—"soft" loans to countries otherwise unable to borrow**
- **Raising Price of Gold—when possible—when likely?**

THE great debate is waxing hot: How much inflation lies ahead? The concern over inflation is only emphasized by the curious background in which it arises: five million unemployed, the steel industry operating at 60% to 70% of capacity, the automobile industry operating around 50% of capacity this year and the Federal Reserve's index of industrial production at 133 in July, about 10% below its peak of a year and a half ago.

Reflecting the search for inflation hedges, common stocks are near their postwar boom highs and beyond all traditional standards of sound value based on current earnings, dividends and book values. Bonds, on the other hand, have fallen to levels just above their lows of last October — lows which were reached, it should be remembered, at the peak of the biggest capital boom and heaviest demand for money this country has ever seen in peacetime.

Alarmed by the surge of inflationary psychology more than by the pace of business recovery, the Federal Reserve moved in August — only four months after the low in industrial production was touched — to reverse its anti-recession policy of



Federal Cash Spending & Consumer Prices

Fiscal Year	Cash Expenditures (million $)	Consumer Prices (1947-'49 = 100)
1950	$43,147	101.2
1951	45,797	107.4
1952	67,964	112.4
1953	76,773	114.0
1954	71,360	115.0
1955	70,538	114.5
1956	72,617	114.9
1957	80,008	118.3
1958	83,328	122.2
1959	91,000*	?

*Estimated

easy money. Discount rate was raised from 1¾ to 2% and member bank reserve positions were cut back. The result has been unprecedentedly sharp rises in short-term money rates — the Treasury bill rate has risen from ⅞% in July to 2½% in August — and continuation of the slide in the bond market.

How much of the inflation fear is justified by the facts? There are skeptics who point out that there was widespread concern about inflation in 1936, a year which would seem unlikely to have produced fears of inflation. Yet vast unemployment, widespread excess capacity in industry and deep seated discouragement among the people at large as well as in the business community did not prevent fearful forecasts of inflation at that time. As a matter of fact, no inflation was visible until the massive Treasury borrowings of World War II raised the liquidity of the economy so high that even price controls and direct rationing of materials could not keep the lid on.

What the skeptics forget is that in the 1930's people talked inflation but experienced deflation. Today the inflation sensitivity of the people reflects almost twenty years of inflation which has halved the value of a dollar. There is general awareness of the new forces for inflation which we have built into the economy, particularly the Federal Government's commitment under the Employment Act of 1946 to maintain maximum employment and purchasing power. People count on the fact that recessions, which once brought lower prices, will not be allowed to go too far. With the labor unions usually in the driver's seat at collective bargaining talks, the natural consequence has been a steady rise in wage costs, higher prices all along the line, and widespread expectations among business and the public of more of the same.

We may be facing a period in which the inflation sensitivity of the American people is undergoing a significant change, making the American economy far more prone to inflation than it has ever been in the past.

The Business Outlook

What makes many people confident that there is no serious inflation danger ahead is the uncertain outlook for business. It must be admitted that the inflation danger we now face is different in kind from the upward pressures on prices we had in 1955-57 when the United States was experiencing an unparalleled capital investment boom and inventories were being built to levels never before reached.

This is true even though the business recovery since April has been unexpectedly sharp. Indeed the recovery pace has been so fast as to give rise to doubts that it can be sustained. Business firms are now reversing the inventory cutbacks which had been depressing productive activity since September 1957. They cut too low, counting on almost instantaneous delivery from the producer to maintain their ability to meet customer demands. Now, with delivery periods lengthened, their attempts to get inventories back up are providing sharp stimulus to current productive activity. But this is a temporary "catching-up" influence. With productive capacity ample in almost every line there is little incentive for any large scale accumulation of inventory.

Meanwhile, one of the supports for the business upturn — the rise in home building — is being threatened by the tightening money market which is turning the attention of the institutional mortgage investors back to the bond market where yields have again become outstandingly attractive. FHA insured mortgages at 5¼% and VA guaranteed mortgages at 4¾% (less ¾% for originating and servicing fees) were attractive last spring when high quality corporate bonds offered only 3⅝% and Treasury bonds 3⅛%. But now new corporate bonds offer 4½ or 4¾%, even more than the net yield on the FHA 5¼% mortgages, and Treasury bonds can be bought to yield 3¾%. Thus the yield advantage of mortgages has narrowed greatly or disappeared. The result could be a lack of mortgage money next spring when the transactions and com-

mitments now being made will become effective.

It may be that the bond market will recover a bit and yields will become less attractive. Or government spending may take up slack next spring so that there need not be a renewed downturn. In any case, most people would argue, the odds are against a return to real boom conditions for some years yet, if only because the engine room of the economy — the capital goods sector — looks as though it will remain at idling speed for some time.

Excess Industrial Capacity

It is the widespread existence of excess industrial capacity today which makes some observers believe that "inflation is impossible." Business spending on new plant and equipment totals no less than $336 billion since World War II. approximately one third of the more than $1 trillion total of tangible, reproducible wealth in the U.S. As a natural reaction, capital spending by business has been trending down since September 1957. It will take time for the economy to grow up to some of the overcapacities that have been created temporarily by investment programs that were geared to long-range objectives or to over-optimistic projections of markets.

Federal Reserve Board statistics on production and capacity of major materials industries indicate that operations currently are no better than 75% of capacity. Privately computed measures show the same result. This should not be surprising in view of 60% or 70% operations in steel, 50% in autos, and sharply reduced output of nonferrous metals.

While production is expected to improve from current levels, it will not approach capacity for some years. For example, both Harlow Curtice, former head of General Motors, and Henry Ford II have asserted that the automobile industry will produce 8,000,000 cars and trucks in the middle 1960's. The significant aspect of these forecasts is that the target figure is one that was achieved in 1955. Its reattainment in 1965 (for example) would presumably still leave excess capacity in the industry, for capacity would have had ten years to increase since 8,000,000 units last were produced.

Copper is another case in point. Copper production in the free world totaled 3.3 million tons in 1956 and again in 1957, both boom years and not likely to be approached again soon. Yet currently projected additions to capacity envisage an output potential of 4.2 million tons by 1961. Aluminum production now, despite recent improvement, is still far below the 2.7 million ton annual output potential which existed at the start of 1958. Yet the capacity figure is scheduled to rise to 3.7 million tons as a result of expansion projects currently underway or planned. The oil industry too is faced with excessive productive capacity on a world-wide basis (as indicated by current U.S. import restrictions to protect the domestic price structure) and the increasing number of small producers abroad may bring difficulty in maintaining the crude price structure.

Administered Prices

When all this is said, however, we have to remember that despite these symptoms of excess capacity, the economy is still operating at a high level. We are far from the situation of the 1920's when steel production got down to 20% of capacity and unemployment rose to 25% or more of the labor force. Industry has wide latitute in setting prices in most cases and where demand conditions are favorable even excess capacity need not rule out price increases.

With the business recovery only four months old and production far from near its limits, we have already had a spate of price mark-ups. Significantly the first probing price increases have come in the steel, aluminum and copper industries, where excess capacity is greatest but where upward pressure of wage costs is also felt most keenly. Automobile wage talks are not yet finished but the chances are that any settlement will involve price increases on the 1959 models.

The steel industry showed a surprising ability this spring to produce profits at 50% of capacity. It may be in the years ahead that business men will display an equally surprising ability to raise prices in the face of excess capacity. Protection of profit margins in the face of the steady upward pressure of wage costs will require price increases. Political pressures, public criticism and attack are not likely to prevent this unless the general economic situation is far weaker than anyone anticipates.

It is the industrial sector of the price indices which is significant. A flattening out of the consumer price index which merely reflects better crops or an oversupply of meat animals can only be regarded as temporary and similar to what we had in 1955 when falling farm prices offset rising industrial prices. The trouble with this type of price stability is that it is fortuitous and temporary, as we found out in 1956 and 1957.

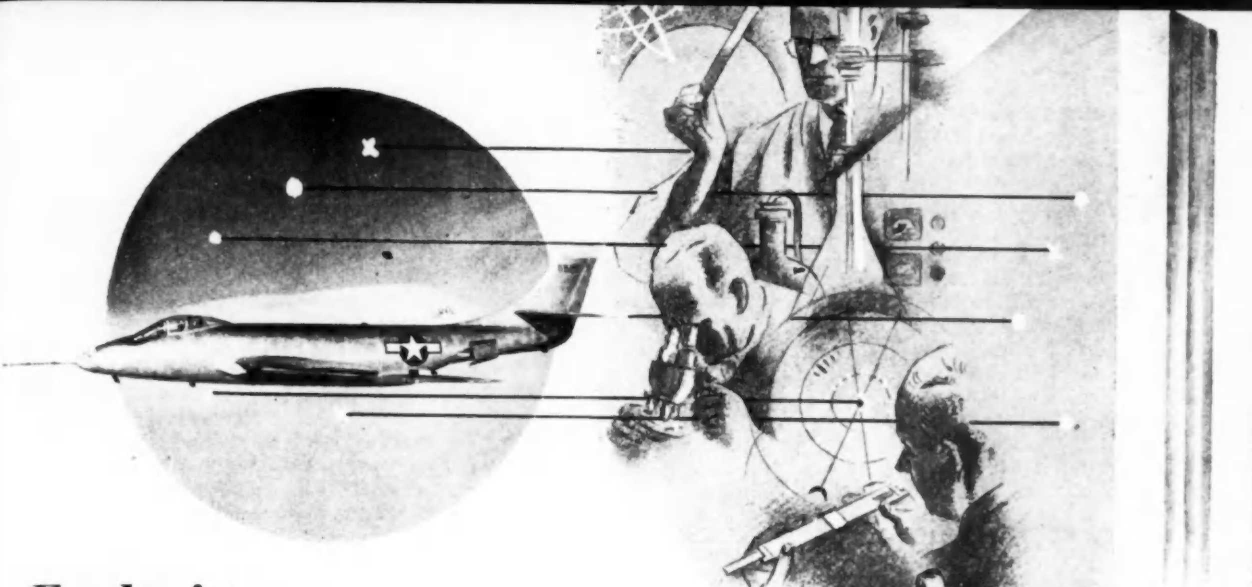
Fiscal Policy and Inflation

The dynamic force behind inflation expectations is the rising course of government spending. This is the source of the belief that markets will be strong enough to stand price increases by industrial producers and wage increases by labor unions. Excessive government spending underlies almost every major inflation of the past and it would be foolhardy to ignore the dangerous drift of the federal budget in the past two years.

Budget Director Maurice H. Stans indicated in testimony before Congress this summer that Federal Government outlays are now expected to total $79 or $80 billion in the current fiscal year, more than was spent in any other year of peace. With revenues depressed by the recession squeeze on incomes and profits, tax receipts are not expected to exceed $67 billion. Thus the prospect is for a deficit of $12 or $13 billion, at a time when business is recovering and private demands for bank credit and long term capital are on the rise.

The U.S. Treasury is now going through a period of crisis as it figures out how to finance a deficit of this magnitude. But the real crisis faces the American people. The $12 or $13 billion deficit is only the beginning.

The Budget Director admitted to Congressional questioners that federal spending may run $80 billion a year for five years or more. He doubted that tax receipts at existing rates would come anywhere near covering *(Please turn to page 702)*



Exclusive . . .

First Hand Report in Depth -

EMERGING PROBLEMS OF THE AIRLINES

By Allen M. Smythe

- **Why greater speed and capacity are essential to assure profitable operation.**
- **Where the needed conversion to turbojet and turboprop is producing formidable financing dilemmas.**
- **The position of the stockholder and investor.**

FEDERAL statisticians say that nearly everyone in America has ridden in an automobile. Excluding children, everyone has traveled on a railroad. However, they estimate that only six percent of our population has ever flown in a commercial airliner.

If the airlines could persuade an extra two percent of our population to travel by air their financial worries would be over. Frankly they would weather the recession and not be too badly off if they could just continue to use their present equipment for the next five or six years.

The fiscal problems of the airlines stem from their jet re-equipment program. All the airlines have ordered, or plan to order, turbojet and turboprop aircraft, reflecting the impossibility of operating competitively inferior aircraft. The difficulty has been to meet payments out of present earnings. Since mid-1956, there has been a steady decline in domestic load factors which has continued through the first half of 1958. Whereas, the load factor averaged nearly 65 percent for the fiscal year 1956, it was only 61.5 percent in the calendar year 1957.

Declining load factors, superimposed on increasing capacity costs, have materially increased the costs involved in handling traffic. Thus, in 1957, the cost per revenue ton mile was 50.8 cents as compared with 48.1 cents in 1956, and 46.8 cents in 1955. From 1950 through 1955, airlines reported net profits which were relatively favorable. As a percentage of return on investment, they averaged in excess of 11 percent. As a percentage of gross revenues, they averaged better than 5.5 percent.

In 1956, net profits declined only moderately, due to a substantial increase in capital gains from sale of equipment which practically offset a decline in operating income. In 1957 net profit declined by over 50 percent to $26 million, despite the offset of even larger capital gains. Net profits in 1957 amounted to a 4.8 percent return on investment and a 1.9 percent margin on revenues. During the first half of 1958, the decline in net profits continued at a rate which, if it persists, will eliminate all profits by year-end 1958.

New Money Needed

It is estimated that the gross amount of funds which the domestic and international air carriers will be required to have available between now and 1962 is $4 billion. This includes the purchase of

new equipment, additional working capital required, debt retirement, etc. This is over and above the $200 million to be invested by others in such things as hangars, terminal facilities, and the like. It does not include the expense to municipalities for the building of new airports, or the lengthening and strengthening of runways. Nor does it include the federal expense of modernizing our airways system for supersonic aircraft.

The total estimated costs of new aircraft on firm order and contemplated to be ordered by the domestic trunklines, including some piston aircraft to be delivered in 1958, is $1.9 billion. In addition, Pan American and Panagra plan to spend $293 million on new jet aircraft before 1961, bringing the total estimated aircraft expenditures for domestic and international air carriers to $2.2 billion over the next five years and $1.8 billion over the next three years. Including expenditures for ground support and other equipment of $400 million, the total airline equipment program amounts to $2.6 billion. The book value of the present equipment is around $500 million.

Jet Aircraft On Order

As of August, 1958 the announced jet turbine aircraft on order, by year of expected delivery, are as follows:

Type	1958	1959	1960	1961	Total
Turbojet aircraft					
Boeing 707	5	66	35	—	106
DC-8	—	13	72	14	99
Convair 880	—	—	43	18	61
Turboprop aircraft					
Electra	14	76	26	—	116
Friendship	23	26	—	—	49
Viscount	20	—	—	—	20
Total	62	181	176	32	451

In addition to aircraft or firm order, several carriers have options to purchase additional aircraft and some airlines which have not yet placed firm orders expect to do so. Still other airlines which have already placed orders indicate that more orders will follow when they decide which aircraft to buy. This might add more than 150 to those on firm order.

Plans For More Speed and Capacity

A sales feature of the new jet equipment is its greatly increased capacity and productivity when compared with piston engined aircraft. The speed will be doubled, the range increased, the seat capacity enlarged, and less noise and vibration will make for more comfortable traveling. The DC-8 will have three times the seat-mile capacity of the DC-7.

It is estimated that the new jet equipment either now on order or to be ordered and delivered by 1962 will have (assuming 8 hours utilization) a productivity of close to 61 billion seat miles a year. In addition, there will be delivered, in 1958, piston aircraft with a capacity of nearly 4 billion seat miles a year, for a grand total of 65 billion seat miles for trunkline and international operations.

In 1957, the domestic airlines generated 24.5 billion passenger miles, and the international operators 6 billion, for a total of 30.5 billion.

Extensive retirements can be expected. Some carriers plan to retire all or virtually all of their present piston equipment. Others, however, plan to retain a portion of their piston fleet. On the basis of present plans, it appears that something in the range of one-third to one-half of present piston-engined capacity will be retained through 1962. This would indicate a 1962 total industry capacity of 83-92 billion *seat* miles.

At the 1956 load factor levels of 64 percent, passenger traffic would have to aggregate 53 to 60 billion passenger miles (in contrast to 30.5 billion in 1957) to utilize 1962 fleet capacity. This would require a rate of growth of from 11 per cent to 13 percent per year from 1957 traffic levels.

Reflecting economic conditions, air traffic the first six months of this year rose only 3 percent. June air traffic, probably affected by two midair collisions, dropped 5 percent under last year.

Extended Traffic

Recent forecasts for 1962 indicate 40 billion passenger miles for domestic traffic and 9 billion passenger miles for international traffic, for a total of 49 billion passenger miles and a growth rate of approximately 10 percent per year. This growth rate is below the 1952-1957 experience but above the most recent experience of zero growth. The concensus of several other forecasts of traffic for 1962, increased to reflect international traffic of 9 billion passenger miles, also indicates a level of traffic at 49 billion passenger miles.

Airlines are concerned with the fact that the largest part of the deliveries of aircraft are scheduled to occur in the next three years at a rate faster than the expected traffic build-up and there appears to be little doubt that a temporary surplus of capacity will develop. However, by 1962, surplus capacity could be absorbed if the expected lower operating costs of the new equipment permit profitable operations at lower utilization rates or lower load factors, or a combination of the two. It also is possible that the retirements of piston aircraft can be accelerated and increased, reducing the available capacity.

The airline industry recognizes that substantial traffic growth is necessary if the equipment to be acquired is to be justified and profitably operated, and believe that the "stimulation factor" of the new jet airliners will assure new traffic and a high load factor.

Financial Problem

Of the 4 billion which the carriers need to finance their re-equipment program, $1.4 billion is estimated to become available from depreciation, leaving a balance of $2.6 billion to be met out of sales of existing equipment, profits, deferred taxes, and equity capital.

Airline officials say that, under reasonable estimates of depreciation, proceeds from equipment sales, and earnings, the new capital requirements for the industry amount to $1.4 billion for the 1958-62 period. Of this amount, arrangements have been made for approximately one-half.

Under the assumptions made, new capital required by each airline, but not arranged for, is as follows:

Carrier	*(Millions)*
TWA	$313.3
Pan American	115.3
Northwest	63.5
Capital	53.5
National	47.5
American	31.9
Delta	28.8
Northeast	26.3
Eastern	22.6
Panagra	18.0
Western	17.2
United	8.0
Continental	5.8
Braniff	—
TOTAL	$751.7

Several of the carriers indicate that, if anything, these assumptions are too favorable and that, in fact, their requirements will be larger than the amounts shown.

So far, the airlines have followed a pattern of long-term financing, mainly through loans from insurance companies, supplemented by shorter-term loans from banks to cover requirements not met by the long-term financing. Some equity financing was undertaken in 1956 and early 1957, when conditions in the equity market and airline earnings were more favorable. None has been undertaken thereafter.

In contrast to the Big 4, (United, TWA, American and Eastern) the medium-sized trunklines have had limited success in arranging long-term loans.

Airline executives say that, even when bank loans can be arranged, the insistence of the banks on loans of relatively short term (no longer than 10 years and generally less) impose onerous repayment requirements on the airlines, when they turn to this type of financing. Additionally, the financing requirements are so large in relation to present capitalization that the debt ratios (already high for most of the airlines) will exceed the limits considered prudent or acceptable by financial institutions. Thus it seems clear that equity financing will be required in most cases as a condition precedent to the granting of bank loans.

The airline industry believes that the equity market is not favorable for the issuance of common stock for most of the medium-sized airlines. The marketing of additional stock by any airline whose stock is selling below book value would involve a substantial loss in equity on the part of the present stockholders. Until earnings are sufficiently improved to restore the confidence of the equity market in airline securities, it is questionable whether the present stockholders will authorize further issuances of stock.

Of course, something is going to be done about it but most of the solutions will require government action or at least government pressure to produce fast and practical results.

Inadequate Rate Structure

The Civil Aeronautics Board last February allowed the airlines an interim raise in rates of 4 percent plus $1 for each ticket, which made an overall total of 6.6 percent. Another raise of equal size is essential early this fall. Although the CAB is hesitant of the effect on air traffic, the airlines are not. They believe that even with new rates, the present efficient equipment will generate an increase in traffic in view of the probable economic upturn this fall.

Early this year the Administration made a mild attempt to induce Congress to repeal the 10 percent excise tax on transportation. Federal officials are now convinced that such action by the next Congress is imperative. It would also be helpful to the railroads and bus lines.

The CAB has undertaken a general passenger fare investigation which is proceeding in the usual ponderous and exasperating manner. A decisison on a permanent raise in rates is due next spring. If the excise tax should be removed by then, a fair decision would solve most of the airlines' problems.

COMPARATIVE SPECIFICATIONS ON JET-POWERED AIRCRAFT

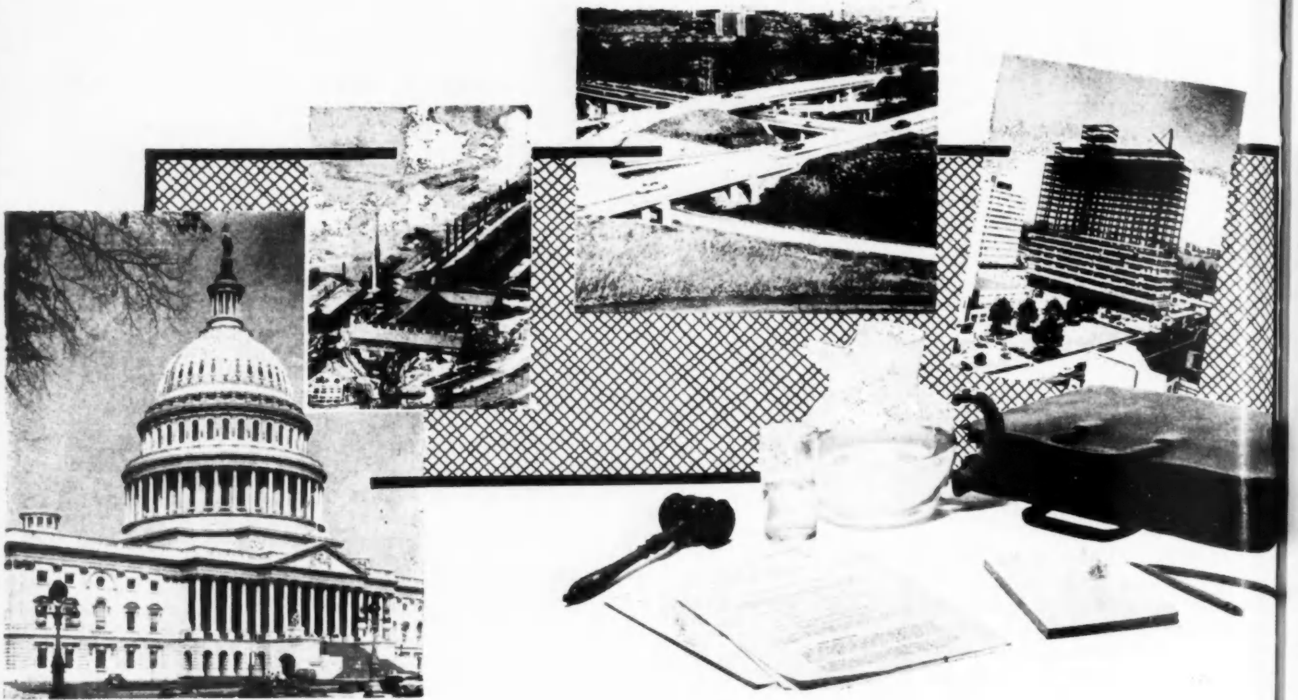
	Boeing 707	Douglas DC-8	Convair 600	Lockheed Electra	Fairchild Friendship
Passengers	100-150	118-176	90-120	68	36-44
Cargo Capacity	1670 cu. ft.	1390 cu. ft.	637 cu. ft.	565 cu ft.	172 cu. ft.
Speed (cruising)	585 mph	589 mph	635 mph	407 mph	274 mph
Engines	Four P&W turbojets	Four P&W turbojets	Four GE fanjets	Four Allison turboprops	Four Rolls Royce turboprops
Takeoff Thrust	13,000 lbs.	13,000 lbs.	15,000 lbs.	3750 hp	1990 hp
Takeoff Weight	247,000 lbs.	265,000 lbs.	238,200 lbs.	113,000 lbs.	34,500 lbs.
Fuel Capacity	15,450 gals.	17,600 gals.	15,200 gals.	5,400 gals.	1,720 gals.
Interior Cabin Width	142"	142"	128"	128"	100"
Length	144'6"	150'6"	139'6"	104'6"	77'1"
Wingspan	130'10"	139'9"	120'	99'	95'2"
Tail Height (from ground)	38'7"	42'4"	37'6"	32'9"	27'6"
Runway Length Required	9,300'	9,130'	8,100'	4,180'	3,200'

There is no guarantee that such favorable federal action will be taken and in the meantime the airlines are pressuring the airframe and engine companies to adjust prepayment clauses in their equipment contracts.

The airframe companies, Douglas, Boeing, Lockheed, Fairchild and Convair, maintain that they cannot undertake this financial responsibility. Their main activity is defense business and they point out that the Pentagon has recently adopted a reduced progress payment policy and a restricted monthly expenditure control.

The jet engine builders, Pratt and Whitney, Allison Motor Division of General Motors, and the Jet Engine Division of General Electric, are in far better financial position to help the airlines.

Recently American Airlines negotiated a leasing agreement with these engine firms that set a precedent for the industry. *(Please turn to page 709)*



Specific Legislative Gains ... *and* *where Congress* Left us Holding the Bag

By James J. Butler

In its pre-adjournment rush, Congress wrote a record of production that is impressive when viewed from the standpoint of quantity and was acceptable in scope, yet failed to meet the challenge of the times in some essential particulars.

Starting out under the lash of nationwide insistence that Russia's military and scientific lead (real or rumored) be overcome, Congress moved in the Sputnik Era with crusading zeal. But when it became clear that national existence could not be erased by one spectacular achievement in the science of outer space, there was letdown of activity. Next came the Depression Era, in the timetable of the session just ended: the weeks that led to realization that there was more than an economic dip at hand, that there was a real recession at work which might well lead to a depression. This, too, was a period of speeded activity; some of it was frenzied, a whole lot of it with political inspiration and cure-alls. The final phase was the pre-adjournment rush. It produced legislation, some of which was good and some of which was questionable; and it defeated bills which, likewise, might have carried either tag. Some basic procedures were improved. For example the Reciprocal Trade Act to run four years instead of three. President Eisenhower was given most of what he had asked, more than he wanted in some instances. But Ike said bluntly the Congress had been guilty of errors, important omissions.

The Minus Side

In terms of bills passed or rejected, or reduced to simple hours on-the-job, the 85th Congress cannot be labeled a do-nothing session. Yet it may not have done as much as it might to improve areas that embrace, or border on the national economy, in which areas is inherent the capacity to defend or retaliate against the assault of hostile military might or depressing conditions at home. It will be remembered that this was scheduled to be a tax equalizing, penny pinching, budget balancing, tax reducing Congress, which would nibble away at the "mounting public debt." It also was billed as the session which would restore a degree of management-labor tranquility by casting at least the more brazen felons and their overreachings from labor unions. It developed into the spendingest Congress in peacetime, which wrote an unbalanced budget and sent the statutory debt figure into the stratosphere, meanwhile consciously creating a deficit which might mean higher taxes next year. Then Congress played footsie with the criminal element of the labor movement by refusing to pass meaningful legislation.

There was great promise of tax equalization when the session began. It never materialized. The Ways

& Means Committee touched gingerly on the subject of loopholes, then moved on to draft a bill dealing mostly with children's toys, fishing tackle, milk bars, stored whiskey, a few other details.

Labor legislation was stalled until it was too late for the true friends of rank-and-file card holders to drive banditry out of their union treasuries. The next Congress will have before it the full report of the McClellan Committee and its supporting proofs. By an early start, the opportunity for procedural shell-game tactics might be minimized. Next time, Congressmen might have to stand up and be counted.

The Plus Side

This is not to suggest that the last Congress had a bad record. In fact the book is good. At the midway point, Capitol Hill seemed bent on reaching a new low in legislative indolence. The three measures on which there was unanimous feeling that something constructive must be done (although there was difference as to details), were reciprocal trade, Pentagon reorganization, and mutual aid. As was expected, the President didn't get all he wanted in any of these bills. But he was given workable legislation in each instance. He seemed pleased; almost surprised. Statehood for Alaska was an achievement, the values of which will not be spread on the record at once but will come gradually. The Tennessee Valley Authority was denied new facilities and new financing, and this non-action will appear as an affirmative accomplishment in the books of those who favor free enterprise.

Left Over Legislation

These and many other actions list on the plus side. Yet it cannot be denied that Congress called off its date with destiny. It can hardly sidestep, in the next session, increased responsiblity on budget, taxes, debt, and economy. The combination of these forces will require a new drive against tax inequity, one with greater sense of urgency behind it than was manifest this year. Last year, at this time, members of Congress were boasting of the cuts they had made in the President's budget for the 1959 Fiscal year (ended June 30). They had lopped $4.5 billion off appropriation bills. Any sober analysis of the estimates they approved should have told the congressmen then that the amounts would be restored through supplemental appropriations before the year was out. Of course that's what happened. Last year's "balanced budget" turned into a $2.8 billion deficit. Meanwhile general tax cuts have been moved out of sight, the Treasury is starting the soft sell to prepare for a tax increase in the next budget, and two increases have sent the debt limit to $288 billion, with a $12 billion deficit expected this year.

Spending Pressures

Congressmen are not compulsive spenders. Especially in an election year. But they sowed the seeds of this year's fiscal grief by a phony economy program last year, and the job was completed by missiles, recession, bumper crops and the inexorable rise in the price of materials and labor going into the things Washington buys.

Last January, the Budget Bureau estimated spending for this year at $73.9 billion and receipts at $74.4 billion, leaving a half-billion dollar surplus. Latest estimates are that the final report on tax receipts will show a total of $67 billion taken in by the Treasury and that spending will rise $5 billion over the January forecast. The added spending pressures are: bumper crops of wheat and other basics which will add $1.5 billion to farm surplus payments; $1 billion for new housing aid; about

BOX SCORE ON 1959 FEDERAL APPROPRIATIONS

Appropriation Bill	Amount Requested	Approved by the House	Approved by the Senate	Public Law
Miscellaneous Agencies	$ 15,814,870	$ 15,558,870	$ 14,954,870	$ 15,679,870
Interior	414,484,600	413,145,600	489,916,950	459,675,950
Treasury-Post Office	4,121,969,000	4,108,108,000	4,108,108,000	4,108,108,000
Independent Offices	6,171,270,500[1]	5,993,404,900	6,103,456,900	6,090,156,900
Labor-H. E. W.	2,975,437,181[2]	2,967,955,581	3,205,382,581	3,142,606,981
Agriculture	3,320,888,539	3,216,988,539	3,207,973,039	3,191,875,539
State Justice, Judiciary	589,285,011[3]	570,722,613	588,717,113	577,904,113
Commerce	982,721,000	949,892,000	1,012,886,000	971,214,000
Defense	38,786,970,000[4]	38,409,561,000	40,042,992,000	39,602,827,000
Public Works	1,077,356,000	1,077,827,200	1,159,915,835	1,118,128,835
D. C. (Federal Contrib.)	27,660,600	22,860,600	24,360,600	22,860,600
Legislative	123,846,669[5]	96,942,113	123,320,419	123,297,387
Mutual Security	3,950,092,500	3,078,092,500	3,518,092,500	3,298,092,500
Supplemental	4,081,154,221[6]	3,131,844,797	3,866,382,978	3,697,305,478
Military Construction	1,730,653,000	1,218,815,000	1,720,115,000	1,353,850,000
Subtotal	$68,369,603,691	$65,271,719,313	$69,186,574,785	$67,773,583,153
Permanents[7]	8,334,000,000	8,334,000,000	8,334,000,000	8,334,000,000
Total	$76,703,603,691	$73,605,719,313	$77,520,574,785	$76,107,583,153

Amount requested includes the following requests submitted to the Senate after the House acted on the bill: [1]$244,210,000; [2]$1,700,000; [3]$70,000; [4]$590,023,000; [5]$25,936,170 of Senate items not considered by the House; [6]$854,838,781.

[7]Budget estimate for permanent appropriations which are automatically approved by Congress. Amount includes $7.8 billion for interest on the public debt.

THE RECORD OF THE 85th CONGRESS (2nd Session)

BILLS ENACTED

—Mutual Security Act ($3,298,042,500)

—Reciprocal Trade (Extended 4 years)

—Pentagon Reorganization (modified)

—Exchange of A-Information with Allies

—Euratom ($330 million) contribution

—Export-Import Bank lending increased

—UN police force backed

—Hungarian refugee admissions broadened

—Defense ($39,602,827,000)

—Civilian and military salaries boosted

—Social Security, 7 p.c. boost in benefits

—Debt limit, temporary raise to $288 billion

—Excise tax, minor cuts, procedural changes

—Corporate tax, continued at wartime level

—Small business, tax relief $260 million

—Small Business Administration, made permanent agency, $250 million added to revolving lending fund

—Transportation, 3 p.c. tax on freight repealed; Federal guarantee on loans up to $500 million for new equipment

—Postal rates, $500 million annual boost

—Highway construction, $5.5 billion installment

—Rivers and Harbors ($1.5 billion)

—Compromise farm bill accenting Benson plan; $2.2 billion to promote foreign sale of surplus

—Bases, detection systems, etc., $54 million

—Advance Research Agency at Pentagon created

—Atomic Energy, $386 million for expansion

—Education, 4-yr. $887 million grant to promote science, language studies

—Statehood for Alaska; not for Hawaii

—Employe pension and welfare fund disclosure

—Price labeling for new automobiles

—Emergency housing bill, $1.8 billion

half a billion dollars added to the President's defense budget; $500 million deficit in Post Office Department planning because a 4-cent top was voted on first class mail after a 5-cent stamp had been computed into incomes; $1 billion in items including pay raises, space agency etc.; repeal of the 3 per cent freight tax; $260 million tax relief for small business firms.

The record of a session of Congress usually is evaluated exclusively in terms of affirmative action. Ordinarly there is no credit for savings effected through rejection of propositions, costly in nature and usually powerfully backed. This year there were bills pending but rejected, which would launch new public works at a cost of $14 billion over a five-year period; lend money for community facilities at a cost of $2 billion; improve farm income at a cost of $36 billion over a five-year term, if all programs were approved; provide for food allotments and livestock payments at a cost of $3 billion a year; grant $100 monthly pensions to all veterans at a cost of $2 billion a year; provide broad aids to education at a cost of $58 billions over a five-year stretch.

Education

While the larger bill on the last-named point, education, was turned down, Congress voted an $887-million education bill. This at least is a start. It circles the major need of teacher recruitment by failure to provide inducements in that direction. It does nothing to help the general classroom shortage problem and it is doubtful that legislation to cope with that need will be passed so long as poor vs. rich states, and racial integration, stand as barriers. Lawmakers from the states which contribute most to the Treasury don't like the idea of financing school systems in other states; the poorer states are the ones with the integration problem, usually, and they won't accept classroom funds if the color bar must be let down as a prerequisite. The teacher salary aid will be part of a bill in the next Congress, but it is probable that the main purpose of school funds will be promotion of teaching in the sciences and foreign languages. Federal scholarships fell by the way during debate, but Congress set aside $295 million for student loans and $300 million in grants, hingeing on state participation.

Labor Bill

Identifying who killed Cock Robin is child's play compared to finding the culprit in death of the anti-racketeer labor bill. To begin with it had bi-partisan sponsorship — Ives of New York, republican, and Kennedy of Massachusetts, democrat. The idea of a stiff reform statute originated with President Eisenhower and he proposed detailed steps in his Labor Message to Congress. The measure died in the House largely, most of its sponsors accuse, because Speaker Sam Rayburn sat on it until it was too late to accomplish anything. But when it came before the House for vote, more democrats than republicans supported it. Senator Kennedy says Republican Labor Secretary James P. Mitchell gave the program only lip service and that President Eisenhower withheld his big guns until it was too late to convince anybody that legislation was needed. And even then, Kennedy follows up, Ike asked not for the Ives-Kennedy bill, but another type of legislation.

nebulous in composition and targets and not even in rough draft. AFL-CIO attributed failure to "an unholy alliance" of business groups, reactionary GOP House leaders, teamsters, John L. Lewis, and Secretary Mitchell. These are some of the ingredients which suggest the difficulty the voters will have in indicting, let alone convicting the guilty.

But to one who watched the race from the starting gate and around the turns as well as at the finish line and does not rely on the final five days of the session to support conclusions, this seems to be the situation: The Administration, meaning the White House, wanted a tough bill to drive racketeers, convicts and crooks out of labor union positions of honor and to insure comprehensive financial reports as well as frequent, free and open elections of officers; Secretary Mitchell preferred the coloration of a tough bill but floundered in the chore of getting together one which would look hard yet not alienate the friendship of the unions; Ives and Kennedy, "labor Senators," had reached the point where AFL-CIO President George Meany would accept their bill, provided it was not amended so as to be a mass indictment against labor unions. That background is made to order to create a major political issue. Such an issue seems to be the total result of labor law talk for this year.

Wholly apart from whatever mandate may be read into the November balloting, the U. S. Chamber of Commerce, which was in on the kill this year, noted that defeat of the bill should vastly improve next year's prospects for legislation that will "protect the inflation-worried public from the growing monopoly power of unions."

The concern over labor union abuses which is evident throughout the Nation seems not to have disturbed Jimmy Hoffa, Teamsters Union president-under-court guard. Despite his "forgettery" on the witness stand and his penchant for doing business on a cash basis — no checks, no notes, no interest paid on his borrowings — the McClellan Committee placed him in the business and social context of America's worst behaviorism. Then he barefacedly announced appointment of a committee picked by Hoffa to investigate Hoffa! The results aren't in yet.

Until the McClellan Committee began producing men in the witness chair, sworn testimony and supporting affidavits, the country probably had been making one of its most serious errors of appraisal: the seasoned labor union "boss." Hoffa has led a charmed life in the courts — in recent years anyway. The reason some other unioneers have been getting away with dictatorship over members and their money has been established in some other industries. The history is written in part on tombstones. This condition was brought recently to the attention of Joseph Curran, president of the heavy-muscled Maritime Union. "What murderers, crooks and thieves?" he mocked. "If there are any it isn't the job of labor unions to put them in jail. That's up to the police and the prosecutors and judges. If they aren't in jail, whose fault is it?" A reasonable question.

THE RECORD OF THE 85th CONGRESS (2nd Session)

BILLS THAT FAILED OF ENACTMENT

—Limiting Supreme Court jurisdiction to defeat state statutes

—Income tax reduction

—Anti-rackets labor legislation

—Omnibus housing bill, $975 million

—U. S. membership in GATT

—Broadened wage-hour law

—Railroad retirement 10 p.c. increase

—Relaxing Federal control on natural gas producing

—Loans for local community public facilities

—Antitrust exemption for sports activities

—Tighter control on election spending

—Advance notice of corporate mergers

—Presidential succession in disability

—Stronger penalties for subversion and making Communist Party membership crime

—TVA authority to finance construction of new plants through bond issue

—Food stamps to distribute $1 billion in farm commodities to the needy

—Proposed $650 million subsidy for domestic minerals

—Frying Pan reclamation project, Colorado

—Hell's Canyon Federal Dam project, Idaho

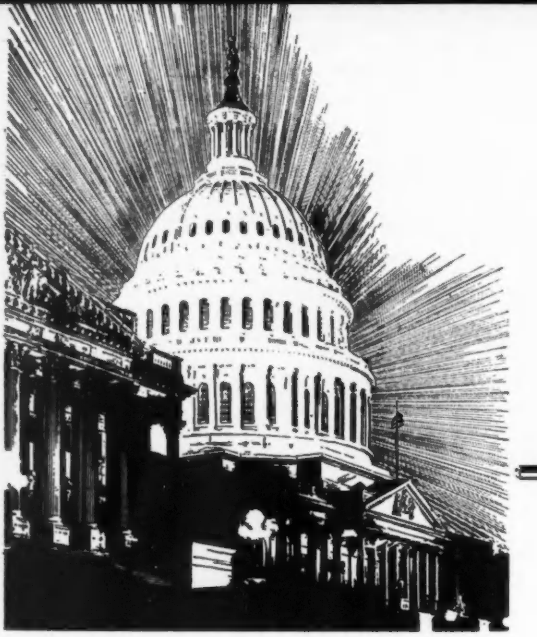
—Government backed health insurance

—Freeze on farm price supports

Tax Reform

One of the deep disappointments of the 85th Congress was the way it ducked tax reform. The Ways & Means Committee began with a mass of collected data and experts available to explain it. Objective of those favoring reform was to show that the Treasury would collect as much tax money as ever if back-breaking inequities were lifted and the burden distributed so that those who don't pay enough would start meeting their obligation, and those who escape completely would come onto the rolls. It is not easy to rewrite the Revenue Act. It's much simpler for Congress to run a deficit, make it up next year by increasing the load on the burdened, preserving the inequities. Many of the lawmakers equate tax reform with tax increase and shy away from it.

Today there is a 20 per cent minimum tax on low and middle-income *(Please turn to page 707)*



Inside Washington

By "VERITAS"

GRADUAL reduction in United States export controls will come out of departmental studies which are being made in Washington, based on material gathered in five months of conference and exchange with friendly foreign countries. Participating nations did not bind themselves to concerted action; each will move as its own interests dictate. Principal aid is to prevent export of goods which would build up the Sino-Soviet war machine and this requires, in the opinion of Commerce Secretary Weeks, continuance of the absolute embargoes against shipments to Communist China, North Korea, North Viet-Nam.

WASHINGTON SEES:

Based on experience in the past session of Congress and accepting the prospect of gains in democratic strength coming out of the November eelction, the session convening in January will call for President Eisenhower's most persuasive gifts of diplomacy if not, indeed, conciliation.

The 1958 session saw many republicans voting against White House recommendations. Not only Old Guard vs. New Republicanism differences were to blame; the division didn't seem to follow that line. The President however has made a perfectly safe division of supporters and non-cooperators in point of legislative votes: those who opposed his reciprocal trade plan, foreign trade, and Pentagon reorganization won't be aided by him, he said.

What cooperation Ike will receive along republican lines may depend on the extent to which his scattershot criticism of Congress rankle in his party. Many republicans backed increase in defense appropriation, which Ike blasted. Defeat of the Kennedy-Ives labor bill was helped by strong republican sentiment to shelve it — Ike indicted the entire opposition. He bombarded backers of the increased general agency appropriation which received republican support. All this with no coattails to offer GOP office-seekers!

SCIENTIFIC RESEARCH and its impact on the national economy has been made the subject of a National Science Foundation bibliography which lists more than 400 items in a compilation which is unique in its field, suggestive rather than exhaustive, but intended as a permanent cumulative work. The scope is indicated in the topical heads: General Background, Philosophy and History of Science, Public Policy, Socio-Economic Impact and Environment, Economic Growth and Stability, Technology-Invention-Patents, Administration and Management of Industrial Research, Funds and Manpower Statistics. Each has sub-headings of major interest. Atomic energy and automation, for example.

STANDARDIZATION in the nuclear industry is attracting attention here and abroad as a necessary step to hold down the present uneconomical cost of reactors and narrow the spread found in comparison of investments at different points. This is an encouraging development: it marks a point in the growth of the science at which costs begin to be counted, and practical considerations move in side-by-side with free-wheeling outlay for research and development. KW-hour cost at the Shippingsport reactor plant will be about 63 mills—seven times the cost of conventional power, and three times original estimate. American Standards Association will help develop essential economies.

RESUMES of Congressional activity usually run to statistics preceded by the dollar sign. There are others. For example: Since the 1958 session convened Jan. 7, the Senate had its say for 1014 hours and the house for 562 hours, and together they talked 18,110 pages of Congressional Record type. The lawmakers enacted 444 public and 284 private bills. The House recorded its stand in 202 roll-calls against 93 in the Senate. Ike had a perfect score on vetoes: 14 written, all sustained by Congress.

As We Go To Press

►The President has top names in the Pentagon and in the Atomic Energy Commission on his list of supporters of a one-year suspension of nuclear large-scale testing, but there are those on the lower echelons who express grave doubts. The diplomatic stake in Ike's offer is great and intriguing. It puts Russia on the spot in a sense by offering to substitute action for argument. If suspension could lead to a system of controls and inspections it would be a big step toward peace; at least it would diminish the threat of virtual obliteration to aggressor and aggressee. Those are the arguments which have gained circulation. They invite prompt and favorable national response.

►Problem No. 1 arises from the fact that the Geneva conferees represented only the "have's" among the nations which are working toward achievement of nuclear weapons: The United States, Britain, and the Soviet Union. No understanding arrived at among these powers can foreclose experimentation, including testing, by other countries. General de Gaulle, for one, says there will be no lessening in pace in France's drive toward producing bombs and testing them in the Sahara. China, riding tandem with Russia on the communist circuit these days, has announced it, too, will go ahead. And in this respect separating Mao from Nikita is like distinguishing Tweedledee from Tweedledum.

►In the Pentagon, skepticism is being so openly expressed that it will be surprising if officers are not called on the carpet. They remember Russia's March 31 proclamation of an end to its nuclear tests. And they remember that it was followed by a long series of detonations with a new high reached in dangerous fallout. Britain seems willing to go along with suspension – after it rushes a series of tests now in progress in the Christmas Islands. Each blast loads the air with poisonous flakes which, scientists say, may not all reach the earth for three or four decades. They would prefer that the load of potential death not be increased.

►One of the more practical objections arises from the fact that suspension now might result in dismantling of the organization – the teams – which made the breakthrough on nuclear sciences. The scientific genius will not be content to the cramped quarters of the laboratory with no time on the proving ground. Many of them are at the peak of performance, dealing with day-to-day changes demanding constant surveillance and permitting no full year's drift, they say. The top men in the business seem less concerned about an effective system of inspection. Such a system envisions to the layman, a pencil-and-paper tour of storage facilities and a gigantic tracking system: actually it would be done mechanically, using equipment so sensitive and dependable, say such scientists as Dr. Roger Lapp, that it can record not only explosions but accurately measure stockpiles from distances of several hundred miles.

►Complementing the extended reciprocal trade agreements bill, with accent on benefits to this country, the Tariff Commission's Committee for Rciprocity Information has asked United States foreign traders for comment with respect to discriminations at foreign ports against our commodities and products. The information will be used in connection with a conference of nations participating in the General Agreement on Tarriffs and Trade, Sept. 16, at Geneva. Joining with the United States in the confab will be United Kingdom, Australia, Ceylon, Ghana, Malaya, and the Federation of Rhodesia and Nysaland.

►The Geneva meetings will explore quantitative import restraints imposed for "balance of payments reasons." United States legates will be prepared to show that discrimination in treatment of

United States goods has resulted in unnecessary damage to the commercial and economic interests of this country, its citizens and organizations; that, in some instances, not even minimum commercial quantities of specific commodities are accepted; trade is being restrained by complex and arbitrary licensing procedures or lack of adequate information available to traders about regulations; discrimination on goods available from the United States as compared with treatment of similar goods from other nations with convertible currencies.

►One of the programs that tottered on the brink of legislative disaster but was rescued just before adjournment was United States participation in the EURATOM proect. Loans and grants to which this country will contribute will make possible atomic reactor research in France, West Germany, Italy, Belgium, Luxembourg and the Netherlands where it is hoped to build and operate six nuclear power plants within the next few years. Most of the equipment used will be bought in the United States. Among other advantages, a proving ground is provided.

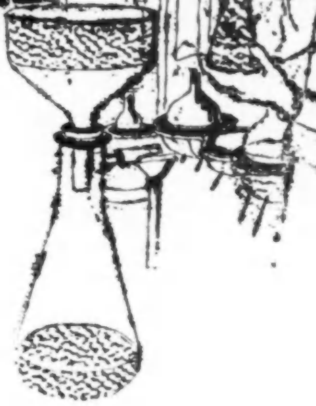
►European capital, from private and public sources, will furnish $215 million for plant construction. EURATOM countries will put up $50 million; the United States will put in a matching $50 million to make the research effort one of joint benefit, provide a capital loan of $135 million from the Export-Import bank, and agree to sell EURATOM, on an installment plan basis, 30,000 kilograms of fissionable uranium-235, a fuel supply with a value of about $350 million. Congress delayed action until the last moment. Had an affirmative vote not been taken, one of two things were in prospect: 1. Delay in launching the project. 2. Financing from less-desirable sources might have been dangled before eyes of the planners. And they might not have resisted.

►Legislation stemming from last-minute compromises frequently combines the worst features of compromise plans rather than the best. The last-moment agreement which produced a new farm law may prove to be an exception: on its face at least, and seemingly by its express terms, it goes far to relax some government interferences and edges in the direction of a free farm economy. Principal features of the law apply to producers of cotton, rice, corn or other feed grains. It permits acreage increases but provides lower supports for cotton and rice. To that extent it advises the farmer against overproduction but doesn't seek to control him.

►Cotton producers may choose during the next two years whether to continue under the present acreage allotment program with lower price supports or increase their cotton acreage up to 40 per cent with price supports reduced by 15 percentage points of parity. Corn farmers will be allowed to vote in December whether they want to retain present acreage allotment and price support program or whether they want to eliminate allotments, with prices supported at 90 per cent of the most recent 3-year market average. Other feed grains would be supported at a fair relationship to corn. While the parity concept is not wiped out, the new law reduced the minimum price support on the affected commodities to 65 per cent of parity by 1962.

►How lasting an impression President Eisenhower made on the men who run the government and business of Canada on his recent sojourn to Ottowa will be gauged on the basis of results of the Commonwealth Trade Conference at Montreal this month. Reports from both sides of the International Border have it that Ike and the Canadians got along swimmingly; that they arrived at conclusions that interests of the two countries are more interlaced than many had supposed. The President was credited with disspelling some notions which threatened to fracture business relations. And, it's said, he tendered a few reminders to the Canadians that their interests can best be served by return to the old friendship status.

►Canada buys roughly 22 per cent of United States exports. In return, she poured $4 billion into American cash registers last year – $1 billion more than she bought from us. Some Canadian leaders are concerned about heavy dependence on this country. That is the why-and-what of the Montreal conference. The Montreal conference was called before Ike made his visit. Hopeful speculation is that the President took some of the steam out of the agenda.



1958-59 Major Reappraisal of CHEMICALS and DRUGS

By Robert H. S. Haroldson

AFTER selling in what for them is regarded as the doldrums for some months, virtually all of the good quality chemical common stocks have been enjoying a spirited rally since early summer. Chemical equities have been very popular with investors and rank second only to the oils among the industrial holdings of professional investment managements. Following are some of the reasons for this large investment interest:

(1) The industry is one of the most basic, ranking among the first six in value of product.
(2) Its products range from basic raw materials and chemical building blocks to very highly specialized finished products.
(3) It has one of the highest growth rates. Since 1925, production of industrial chemicals has grown at an average rate of about 9% annually compared with 3% for all industry. Future growth at the same or slightly reduced rate is generally predicted.
(4) The chemical industry is based on research and development. Its expenditures along these lines exceed all other industries with the exception of drugs. Thus, chemical companies are able to constantly create new products for which there may not be pre-existing markets.
(5) The chemical industry is of ever growing importance to the military. Its activities in the fields of atomic energy and high energy fuels are particularly noteworthy.

All these factors are very real, but with the expansion and broadening of interests by the larger chemical companies, the fortunes of most of them become tied in with the business cycle. Since many chemicals are an integral part of basic production and consumed early in the manufacturing process, their suppliers are among the first to feel the effect of a change in industrial activity. Following the universally excellent results of the first quarter of 1957, earnings of chemical companies suffered a definite erosion throughout the balance of last year. The decline in profits in the first quarter of this year was steep, particularly when compared with results a year earlier. The decline in industry earnings was just about double the drop in the FRB Index of Industrial Production. Such industry bellwethers as Allied Chemical, Diamond Alkali and Union Carbide did not even earn their dividends. In the second quarter, however, there was a slight, although perceptible, increase in industry profits. A pickup in building was felt as was the cyclical bulge of agricultural demand. Also the low rate of operations and phenomenon of profits dropping twice as fast as sales gave the industry the excuse to clean out marginal and non productive elements in the organizational structure as well as in the working force. It is believed that Union Carbide, for example, has trimmed payrolls by as many as 9,000 employees since the first of the year.

When the economic sun came out in April-May of this year, investors realized that second quarter results would not be lower than the first quarter,

Statistical Position of Leading Ethical Drug Companies

	1st 6 Months: Net Sales 1957 (Millions)	Net Sales 1958 (Millions)	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Full Year: Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1957	Dividend Per Share Indicated 1958*	Price Range 1957-1958	Recent Price	Div. Yield %
ABBOTT LABS. W.C. (mil.) '56—$38.7; '57—$36.5	$51.4	$56.6	9.9%	10.0%	$1.32	$1.48	$2.80	$3.30	$1.80	$1.90	61½-37¼	60	3.1%
MERCK & CO. W.C. (mil.) '56—$73.4; '57—$78.5	91.3	101.4	12.8	13.8	1.13	1.35	1.92	2.20	1.20	1.20	60 -29⅛	59	2.0
PARKE, DAVIS W.C. (mil.) '56—$62.6; '57—$67.8	75.8	83.2	14.6	16.1	2.26	2.72	3.59	5.67	2.00	3.00	88½-42⅜	87	3.4
PFIZER (CHAS.) & CO. W.C. (mil.) '56—$72.5; '57—$74.8	98.4	106.9	10.2	10.8	1.85	2.14	3.36	4.23	2.10	2.25	77 -42¾	70	3.2
SCHERING & CO. W.C. (mil.) '56—$25.6; '57—$34.7	38.9	37.8	17.3	15.5	1.66	1.44	3.41	3.80	1.05	1.20	48¼-24⅛	41	2.9
SMITH, KLINE & FRENCH W.C. (mil.) '56—$20.7; '57—$27.9	55.6	61.3	17.4	17.0	2.01	2.15	3.73	4.24	2.20	2.75	92 -53¼	85	3.2

W.C.—Working capital.

*—Based on latest quarterly rate.

Individual Company Ratings

Abbott Laboratories B-1
Merck & Co. A-1
Parke, Davis A-1
Pfizer (Charles) & Co. A-1
Schering & Co. B-3
Smith, Kline & French A-1

KEY TO RATINGS: (A)—Best Grade. (B)—Good Grade. (C)—Speculative. (D)—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

as had been earlier predicted by some seers and, of more importance, realized that a bottoming of the recession, if followed by increasing industrial activity, would in turn give the chemical industry the opportunity of benefitting from its considerable operating leverage.

During the gloomy months of late 1957 and early 1958, chemical company managements, generally above average in alertness and aggressiveness, trimmed capital expenditure projections for the current year from a figure in excess of $1.7 billion expended in 1957 by some 10-15%. Over-capacity has existed or is threatened in such important lines as anhydrous ammonia, ethyl alcohol, chlor-caustics, certain plastics including polyethylene and polyurethane, as well as such basic raw materials as potash and sulphur. Reduced price tags and serious, although invisible, price concessions have been prevailing despite reduced production. In this aggressive industry, production has traditionally pushed sales and the best projections imply that it is only a matter of time before there will be need for additional productive facilities in the surfeited lines. Managements did not, however, reduce outlays for research and engineering — the very life blood of the industry. This industry spends in excess of 3% of its $23 billion plus of sales volume in research and development engineering. A steady stream of new products flowing from the laboratories will not only create new basic products but will upgrade existing ones, taking pressure off over-capacity.

Market Discounts Improvement

The leverage which the fixed costs of steady high level expansion programs and growing research efforts create, (witness the steady increase of depreciation, amortization and debt service), give the chemical company earnings a high snapback potential in an improving economy.

The increase in chemical equity prices over the last three months, however seems to outstrip the near term earnings potential of most companies and is primarily predicated on substantial earnings recovery by mid-1959. The hopes for a pick-up will probably persuade some managements to maintain their present dividend rates, although in several instances 1958 earnings coverage will be very slim, if not non-existent, (there may be some casualties, however, in the usual year end extras) but the companies which will be able to show higher earnings this year than last are restricted to a few of the smaller companies, where special situations prevail.

In summation then, while the long range growth potentials in the chemicals may have been a market factor to some extent recently, to a larger extent the rise may have been due to the small floating supply of these shares, which are so widely held in institutional portfolios.

Discussion of Individual Companies

Among the large companies **E. I. du Pont de Nemours**, the industry leader in many respects including sheer size, reports that its sales are edging upward, but the rate of increase to date is small. Normal seasonal patterns in the chemical industry call for the third quarter to be a low point during a normal year, as it is the traditional time for shutdowns for maintenance and vacations. du Point anticipates little quickening in the demand revival over the next few weeks followed by a rather horizontal fourth quarter, but is pretty sure that the worst is behind it. While du Pont has an outstanding record the uncertainties surrounding its large interest in General Motors should keep it under a cloud for investment

purposes for some time to come.

Union Carbide, the industry's second largest factor, has expended over $1.335 billion for capital improvement in the post-war period with an additional $150 million earmarked for this year. Earningswise the stock has been a disappointment. While sales have increased by some 150% during this period, per share earnings have increased by less than 85%. Much of its expansion emphasis and earning power potential moreover are in the highly cyclical fields of metal alloys, carbides and industrial gases, which make it quite vulnerable to the business cycle. On the other hand, its leverage factor is among the highest and earnings per share could in theory double this year's results assuming optimum operating conditions.

Allied Chemical occupies the number three spot in the industry volume, but has long lagged in product upgrading and inventiveness. Considerable changes have taken place in the upper echelons over the past decade and should make themselves felt in the quarters immediately ahead. As Allied Chemical probably had more room for improvement than the majority of its counterparts, it is an interesting investment.

Among the medium sized chemical companies, only **Air Reduction** and **American Cyanamid** reported lower results in the second quarter as compared with the first. Price weakness in acetylane derivatives and reduced demand were the prime influences on Airco's results, while serious price cutting in antibiotics lines hampered American Cyanamid. This company has been able to turn in a performance superior to the average because of the strong demand over the last several quarters for the products of its Lederle Laboratories Division.

American Potash & Chemical, along with du Pont and National Distillers & Chemical, are the only major chemical concerns which indicate they will

Statistical Position of Leading Chemical Companies

	1st 6 Months: Net Sales 1957 (Millions)	Net Sales 1958 (Millions)	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Full Year: Earnings Per Share 1956	Earnings Per Share 1957	Dividend Per Share 1957	Dividend Per Share Indicated 1958*	Price Range 1957-1958	Recent Price	Div. Yield %
AIR REDUCTION W.C. (mil.) '56—$39.6; '57—$50.2	$93.0	$85.6	8.8%	7.6%	$2.18	$1.71	$4.19	$4.31	$2.37	$2.50	65¾-45⅝	63	4.0%
ALLIED CHEMICAL CORP. W.C. (mil.) '56—$161.9; '57—$151.3	349.4	315.2	3.4	2.7	1.22	.66	4.74	5.16	3.00	3.00	98¾-68½	86	3.4
AMER. AGRIC. CHEM. W.C. (mil.) '56—$27.7; '57—$25.9	74.4[1]	80.3[1]	6.2[1]	6.0[1]	7.41[1]	7 78[1]	6.58	7.41	4.50	4.50	85¼-59	87	5.1
AMER. CYANAMID W.C. (mil.) '56—$202.8; '57—$168.5	259.1	257.3	9.1	7.4	1.10	.91	2.11	2.42	1.60	1.60	52⅜-33⅛	48	3.3
AMER. POTASH & CHEM. W.C. (mil.) '56—$12.2; '57—$15.4	21.7	23.6	11.4	9.3	1.25	.92	2.64	2.35	1.00[3]	1.00	66¾-33⅜	46	2.1
ATLAS POWDER W.C. (mil.) '56—$20.0; '57—$18 0	35.9	31.7	5.7	4.0	2.74	1.65	5.61	5.50	2.40	2.40	79½-56	68	3.5
COLUMBIAN CARBON W.C. (mil.) '56—$17.2; '57—$17.7	36.1	31.5	7.3	4.7	1.66	.92	3.00	2.64	2.40	2.40	48½-30⅛	41	5.8
COMMERCIAL SOLVENTS W.C. (mil.) '56—$25.6; '57—$22.0	29.7	28.4	2.9	2.5	.32	.27	1.07	.53	.92	.20	19½- 9⅞	13	1.5
DIAMOND ALKALI W.C. (mil.) '56—$28.3; '57—$22.4	62.3	56.3	7.5	4.2	1.73	.86	3.83	2.53	1.80[3]	1.50	57¾-29⅞	40	3.7
DOW CHEMICAL W.C. (mil.) '56—$149.3; '57—$143.4	627.8[2]	636.2[2]	8.4[2]	7.2[2]	2.15[2]	1.78[2]	2.52	2.15	1.20[3]	1.20	68¼-49	64	1.8
Du PONT W.C. (mil.) '56—$629.2; '57—$636.5	1,014.4	867.5	19.8	16.8	4.31	3.09	8.19	8.48	6.50	6.00	206-160¾	195	3.0
FOOD MACHINERY & CHEM. W.C. (mil.) '56—$101.7; '57—$104.5	166.0	156.7	5.5	5.2	2.65	2.39	4.72	4.60	2.00	2.00	65¼-42¾	62	3.2
HERCULES POWDER W.C. (mil.) '56—$46.3; '57—$54.0	124.7	116.7	7.0	6.5	1.03	.89	2.10	2.12	1.10	1.10	47⅞-35	46	2.3
HEYDEN-NEWPORT CHEM. W.C. (mil.) '56—$19.4; '57—$13.7	25.1	22.8	6.0	3.2	.66	.26	1.07	1.08	.80	.80	17¼-10¾	14	5.7

W.C.—Working capital.
*—Based on latest quarterly rate.
1—Years ended June 30.
2—Years ended May 31.
3—Plus stock.

Individual Company Ratings

Air Reduction B-3
Allied Chemical Corp. A-3
American Agricultural Chemical B-3
American Cynamid A-3
American Potash & Chemical B-3
Atlas Powder A-3
Columbian Carbon B-2
Commercial Solvents C-2
Diamond Alkali B-2
Dow Chemical A-3
Du Pont A-2
Food Machinery & Chemical B-3
Hercules Powder B-3
Heyden-Newport Chemical C-3

KEY TO RATINGS: A—Best grade. B—Good grade. C—Speculative.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

spend more on new plants this year than last. Having a sound position in high energy chemicals, American Potash (boron, lithium, rare earths) is one of a growing list of companies participating in the nation's effort to develop fuels to power the missiles and vehicles of the space age. Other companies having a major stake in this very exciting field are Olin Mathieson, Stauffer Chemical (boron), Hooker Chemical, Foote Minerals, Pennsalt (ammonium perchlorate), Food Machinery and Hercules Powder, which have small but promising missile programs.

The most recent bit of excitement in the high energy chemical field came last month, when it was announced that fluorine, the unstable but theoretically ideal oxidant, has finally been harnessed. Important in the production and upgrading of fluorine are Pennsalt, Harshaw, Allied and Du Pont.

High among the glamor stocks in this industry are **Dow Chemical,**, and **Rohm & Haas,** companies whose very ambitious capital growth programs have given them leading positions in numerous specialty lines. The demonstrated capabilities of management and the high cash earning per share make them particularly eligible for long range consideration.

Hooker Chemical by its recent acquisition of Shea Chemical now has a strong position in phosphates and has acquired sufficient additional earning power

Statistical Data on Leading Chemical Companies—(Continued)

	1st 6 Months						Full Year						
	Net Sales 1957 — Millions —	Net Sales 1958 — Millions —	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1957	Dividend Per Share 1958*	Price Range 1957-1958	Recent Price	Div. Yield %
HOOKER CHEMICAL CORP. W.C. (mil.) '56—$31.9; '57—$31.6	$63.2	$60.1	8.7%	8.5%	$ .74	$ .69	$1.75	$1.34	$1.00	$1.00	39⅝-22½	34	2.9%
INTER. MIN. & CHEM. W.C. (mil.) '56—$33.3; '57—$35.8	72.6[1]	70.5[1]	5.8[1]	3.5[1]	1.69[1]	.95[1]	2.14	3.12	1.60[2]	1.60	31⅞-25¼	29	5.5
MONSANTO CHEM. W.C. (mil.) '56—$161.0; '57—$166.3	364.2	337.2	7.6	4.9	1.03	.58	1.80	1.68	1.00[2]	1.00	41¾-29⅞	34	2.9
OLIN MATHIESON CHEM. W.C. (mil.) '56—$182.7; '57—$251.8	291.0	275.6	6.7	3.5	1.48	.74	3.38	2.67	2.00	1.00	61¾-31½	37	2.6
PENNSALT CHEMICALS W.C. (mil.) '56—$26.3; '57—$20.7	40.8	38.5	4.8	4.6	1.53	1.40	2.92	2.40	1.85	1.85	70¾-48½	66	2.8
ROHM & HAAS W.C. (mil.) '56—$34.9; '57—$23.9	90.8	83.5	9.1	7.4	7.82	5.71	15.21	14.32	2.00[2]	2.00	423½-285	399	.6
SPENCER CHEMICAL W.C. (mil.) '56—$21.8; '57—$22.8	38.2[1]	30.6[1]	9.9[1]	7.1[1]	2.51[1]	1.58[1]	4.73	4.05	2.40	2.40	65 -45¼	57	4.2
STAUFFER CHEM. W.C. (mil.) '56—$38.3; '57—$40.8	79.3	79.6	9.0	8.7	2.03	1.96	3.97	3.71	1.80[2]	1.80	83¼-54⅝	78	2.3
UNION CARBIDE CORP. W.C. (mil.) '56—$477.7; '57—$422.8	690.4	588.9	10.0	8.5	2.31	1.66	4.86	4.45	3.60	3.60	124½-83⅞	108	3.3
UNITED CARBON W.C. (mil.) '56—$14.8; '57—$16.1	29.0	26.6	10.7	10.2	2.61	2.28	5.04	5.22	2.00	2.00	71¼-44	61	3.2
U.S. BORAX & CHEM. W.C. (mil.) '56—$14.8; '57—$6.6	39.5	39.8	12.1	3.7	1.03	.24	1.47	1.15	.60	.60	76¾-33⅜	41	1.4
VICTOR CHEMICAL W.C. (mil.) '56—$16.3; '57—$14.1	27.1	26.1	7.4	6.5	1.13	.94	2.02	2.03	1.40	1.40	33½-23¾	31	4.5
VIRG.-CAROLINA CHEM. W.C. (mil.) '57—$26.8; '57—$28.2	44.3[1]	38.2[1]	.8[1]	.8[1]	[d]1.17[1]	[d]1.27[1]	.20	[d].65	—	—	25½-12¾	17	—

W.C.—Working captal.
[d]—Deficit.

*—Based on latest quarterly rate.
[1]—9 months ended March 31.

[2]—Plus stock.

Individual Company Ratings

Hooker Chemical Corp. B-2
International Minerals & Chem. B-3
Monsanto Chemical A-3
Olin Mathieson Chemical B-3
Pennsalt Chemicals Corp. B-3

Rohm & Haas A-3
Spencer Chemical B-3
Stauffer Chemical B-2
Union Carbide Corp. A-2

United Carbon B-3
U.S. Borax & Chemical B-3
Victor Chemical B-2
Virginia-Carolina Chem. C-2

KEY TO RATINGS: (A)—Best Grade.
(B)—Good Grade.
(C)—Speculative.
(D)—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

to create favorable year to year earnings comparisons.

Pennsalt is a revitalized company. Its capital expenditures since 1956 are finally paying off in higher sales and earnings. Its second quarter results, along with Stauffer's, were outstanding in the industry.

Commercial Solvents is working hard to reverse a long downtrend with little demonstrable results thus far. Basic changes are also under way at **Diamond Alkali** and **Olin Mathieson,** although both companies may be a bit thin in top management echelons. The same concern has also been expressed over Hooker.

THE PHARMACEUTICAL INDUSTRY

Performace of the drug stock has been notable in the past two years since the Dow-Jones Industrial Average peaked out. Now, with the prices and price-earnings ratios up sharply and yields reduced, investors are quite understandably asking, what next? The answer is mixed: The long term growth prospect is as bright as ever, but the gain in earnings this year and maybe next will be less than in 1957 for most companies while some face special hazards over the near term, due to heavy profit dependence on one group of products. Some of these are now vulnerable to new competition and to attack by Government agencies.

While the drug industry has problems and oscillations of its own, it is nearly exempt from influence by the business cycle and its growth seems likely to continue, assured by heavy research, rising worldwide standards of health and growing populations.

A Non-Cyclical Growth Industry

Beginning with the introduction of the sulfas in the late 1930's and stimulated by the demand for new and more potent chemotherapeutic treatments caused by World War II, the sober growth of the industry turned sharply up. Present day concepts of corporate research programs and large scale production techniques date from that time.

Assurance that the growth trend will continue is everywhere. The previously mentioned rising standards of health and the growth in population, in particular the higher proportion of children and old people who consume most medicines, tend to support a growing market. Intensive research is being conducted on many of the still unsolved diseases. Health insurance is growing in popularity. Foreign markets in particular hold unusual promise. Lower standards of living, shorter life span and poor sanitation make the ultimate potential abroad even larger than in the United States. Most of the important companies in this industry already have foreign operations, some of which contribute in excess of 25% of current income. **Pfizer** is probably a leader in foreign markets.

Of great importance is the fact that the nature of its products lifts this industry clear of the business cycle. People tend to find some way to buy medicines the doctor prescribes whether they have the money or not.

Research Is The Key

The characteristic benefit of research is not only creation of new products and the improvement of old ones, but literally the creation of whole new markets. For example, the tranquilizer group has attained an estimated $150 million volume in a field where there had been no recognized market. Thus, the drug industry through its research effort, is able to capture an ever-increasing portion of the consumer's dollar.

Last year the pharmaceutical industry spent $127 million on medical research, both basic and applied. Generally speaking, ethical houses devoted in the neighborhood of 6% of their total net sales to research, about double the average for all industry and even exceeding that of industrial chemicals. Some organizations are more research minded than others. Merck and Lilly, for example, spent over $13 million each for this purpose last year, which together represents more than 20% of the industry's total.

A Twofold Problem

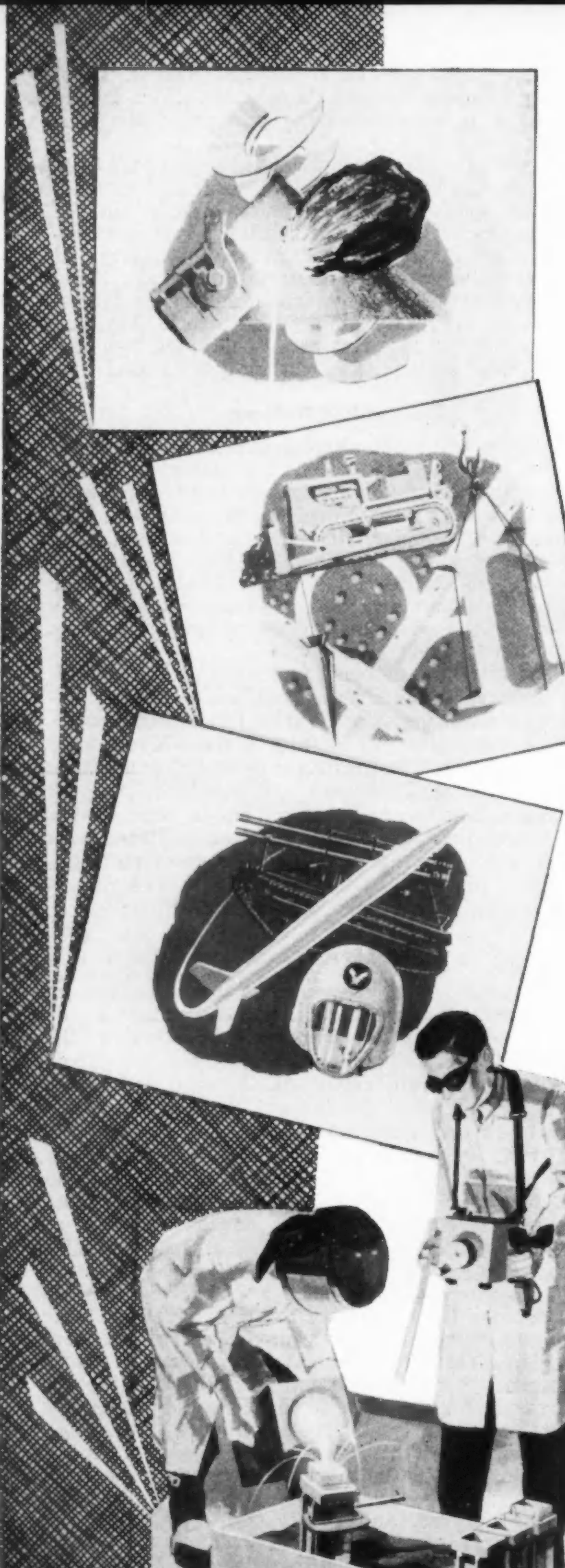
Participation in the pharmaceutical industry presents a twofold risk. One is the history of sharp price declines in unpatented products having a wide general usage. For example, the price of penicillin has declined to under five cents per 1 million units as compared with two dollars in 1947. The price of cortisone has declined 90% since 1950. The other part of the dilemma is the rapid obsolescence factor caused by the continuing constant pressure from competitive research efforts.

A threat from another quarter has now appeared. The Federal Trade Commission has issued a complaint primarily against Charles Pfizer, but also involving American Cyanamid, Bristol-Myers and Upjohn in regard to antibiotic price fixing and patent interchange. This complaint has been expected for many months and its effect has to some extent been discounted in the equity market. Positive action by the Government is still to come, and of more importance, this can be the first in a series of unsettling political actions regardless of their merit.

Current Results Excellent

In a year which has thus far been marked by widespread dividend reductions, there may be no cuts in this industry. Dividend payments on the contrary have been increasing. American Home Products has again raised its dividend and Parke Davis, Merck, Pfizer, Warner Lambert and Vick seem to be in a good position to do so. One of the few dark spots earningswise has been the sharp drop-off in demand for Salk polio vaccine. While five companies are involved in the program, it had its greatest beneficial impact on the earnings of Allied Laboratories and Eli Lilly so these companies are sure to report lower earnings this year.

In the months immediately ahead it will be difficult for the drug industry to show a year to year earnings improvement as comparisons will be with the 1957 period when the Asian flu was rampant. Shipments of flu vaccine and medicines for the upper respiratory system were at record levels last autumn and winter and are not likely to be as high this year unless there is a recurrence of a similar epidemic. Among the more competitive major lines at this time are the steroids, where Schering is heavily involved, and the tranquilizers. The mild dosage forms on which Carter Products is so heavily dependent seem to be experiencing a flattening out of demand, while the more potent versions featured by Smith, Kline & French still have further room for growth in the institutional field. END



CAN STEEL INDUSTRY maintain its pace?

By Lewis Carl Schellbach

IMPORTANT steel producers can look back with satisfaction on their comeback in recent months. While only two (U.S. Steel and Inland) of the eight major companies covered their first-quarter dividends, it was demonstrated that the industry's huge capital expenditures over recent years have resulted in a substantial lowering of the "break-even point."

In particular, U.S. Steel's performance was most impressive, the company reporting March quarter earnings of $1.04 per share, when the industry was operating at about 54 per cent of capacity and June quarter earnings of $1.25 per share. Although the second quarter operating rate for the industry was no better, a number of individual companies enjoyed some degree of improvement because of strength in certain areas of demand. Sheet-steel producers were hit the hardest, while producers of heavy plate fared comparatively well due to activity in the shipbuilding industry. The character of this year's demand to date has been mixed. While the automotive industry reduced its buying by 44 per cent in the first half of 1958 from a year ago, and steel going into rails and accessories was 75 per cent lower, tin plate production held fairly well, due in large part to the steady business of the container industry, and agricultural equipment makers took only 2 thousand tons less steel. Reflecting tin plate consumption, the container industry used a healthy 11.7 per cent of total steel mill shipments in the first half of this year, up from 8.4 per cent in the comparable 1957 period. The major producers of tin plate are U.S. Steel, Bethlehem, Jones & Laughlin, National, Youngstown Sheet & Tube, and Inland. Of the secondary companies, Wheeling and Granite City are the most important in this field.

Agricultural equipment companies boosted their share of first-half steel production from 1957's 1.53 per cent to 2.03 per cent. That the farm prosperity behind the equipment makers' success has also lent a measure of resistance to the decline in steel can be seen in the fact that galvanized sheet

Statistical Position of Leading Steel Companies

	1st 6 Months: Net Sales 1957 — (Millions) —	Net Sales 1958 — (Millions) —	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Full Year: Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1957	Dividend Per Share 1958*	Price Range 1957-1958	Recent Price	Div. Yield %
ACME STEEL W.C. (mil.) '56—$33.6; '57—$38.4	$ 82.6	$ 57.9	$4.7	$4.7	$1.62	$ .57	$2.87	$2.16	$2.00	$1.00	33⅜-19⅜	24	4.1%
ALLEG LUDLUM STEEL W.C. (mil.) '56—$61.7; '57—$60.2	153.7	99.2	5.0	1.3	2.01	.36	4.04	3.02	2.00	2.00	65⅜-28⅜	43	4.6
ARMCO STEEL W.C. (mil.) '56—$191.3; '57—$220.0	556.7	407.9	6.7	5.1	2.66	1.42	4.85	6.03	3.00	3.00	65½-39⅝	58	5.1
BETHLEHEM STEEL W.C. (mil.) '56—$683.8; '57—$676.6	1,363.3	1,003.6	7.6	5.3	2.26	1.13	3.83	4.13	2.40	2.40	50⅝-33⅝	46	5.1
CARPENTER STEEL W.C. (mil.) '56—$18.6; '57—$18.8	51.6[1]	37.1[1]	9.9[1]	6.4[1]	5.99[1]	2.67[1]	6.79	8.00	3.00	2.00	74⅞-39½	56	3.5
COLO. FUEL & IRON W.C. (mil.) '56—$64.5; '57—$69.7	n.a.	n.a.	n.a.	n.a.	2.55	[d].17	3.58	4.04	2.00	([2])	33⅜-18	22	—
CONTINENTAL STEEL W.C. (mil.) '56—$11.2; '57—$11.7	24.4	23.4	6.9	7.1	3.36	3.23	5.57	5.34	2.00[3]	2.00	49⅞-26⅛	49	4.0
CRUCIBLE STEEL W.C. (mil.) '56—$60.4; '57—$52.8	136.3	85.8	4.4	.4	1.66	.11	3.51	1.73	1.60	.40	40⅛-15⅝	23	1.7
DETROIT STEEL W.C. (mil.) '56—$24.4; '57—$24.4	48.7	26.8	3.8	[d].1	.57	[d].14	2.78	.90	1.00	.50	22⅞- 8¾	14	3.5
EASTERN STAINLESS STEEL W.C. (mil.) '56—$17.2; '57—$15.4	27.6	21.5	5.8	4.3	2.64	1.30	3.75	2.55	1.50	1.50	60¾-24⅞	52	2.9
GRANITE CITY STEEL W.C. (mil.) '56—$36.8; '57—$32.5	65.9	57.4	9.5	6.7	2.92	1.81	7.04	4.64	3.00	1.60	59⅝-26¼	48	3.3

W.C.—Working capital.
***—Indicated div. based on latest quarterly rate.**
[d]—Deficit.
n.a.—Not available.
[1]—9 months ended March 31.
[2]—Div. omitted May 12; Paid $.50 and Stock to 4/7/58.
[3]—Plus stock.

Acme Steel: Producer of hot- and cold-rolled sheet strip and derived products — steel strapping, stitching wire and equipment, steel cabinets, etc. Earnings for this semi-integrated company fluctuate with business activity in general and should hold steady for the near term. (B-2)

Allegheny-Ludlum: A leader in stainless and specialty steels, demand for which should continue to grow at a faster rate than that for carbon steel. For the near term, this company may have difficulty in maintaining its $2.00 dividend rate. (B-2)

Armco: Acquired National Supply in April, thereby diversifying into oil equipment goods. Armco is fully integrated, one of the eight major steel producers, and has enjoyed a growth faster than that of the industry as a whole. (A-2)

Bethlehem Steel: In size, the second-ranking factor in the industry, Bethlehem is the largest domestic shipbuilder. Terms of a merger with Youngstown Sheet & Tube have not been announced, but the merger will take place unless blocked by the Justice Department. (A-1)

Carpenter Steel: Northeastern Steel was acquired by Carpenter in October, 1957, and this non-consolidated subsidiary has incurred a $1.6 million loss since the acquisition. On the whole, the earnings record is good, and long term outlook is enhanced by prospects for alloy and stainless steels. (B-2)

Colorado Fuel & Iron: Deficit early this year on sharp reduction of volume. Company has achieved some measure of diversification through capital expenditures but wire and heavy steels are still the mainstay of this company's production. (C-2)

Continental Steel: Near term profits outlook is not exciting, but past record is good. Sheet steel and wire products are the principal products, a large part of which go to the farm area. (B-2)

Crucible Steel: Has some growth prospects, as company has important position in stainless and specialty steels. Operating margins should benefit from price increases and better volume. For the long term, improved facilities and broader markets for stainless will help to increase sales and earnings. (B-2)

Detroit Steel: A speculative steel, Detroit has been a heavy spender on capital expenditures over the last few years. New modern milling facilities point to improved results over the long term. (C-2)

Eastern Stainless Steel: With relative independence from the auto industry this firm is still subject to violent cyclical swings. Lower costs of nickel and scrap should help to widen profit margins in the near term. Earnings for second half of 1958 should be better than the first half results. (B-1)

Granite City Steel: Major expansions of plant facilities will continue to boost Granite City's earning power, as will the company's capital program. Higher wages will be offset by lower scrap costs and higher steel prices. While earnings will probably be below the 1957 figure of $4.64 per share, the $0.40 quarterly dividend will likely be maintained. (B-2)

RATINGS: **A—Best grade.**
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Statistical Position of Leading Steel Companies—(Continued)

	Net Sales 1957 — (Millions) —	Net Sales 1958 — (Millions) —	1st 6 Months Net Profit Margin 1957 %	1st 6 Months Net Profit Margin 1958 %	1st 6 Months Net Per Share 1957	1st 6 Months Net Per Share 1958	Full Year Earned Per Share 1956	Full Year Earned Per Share 1957	Full Year Dividend Per Share 1957	Full Year Dividend Per Share 1958*	Price Range 1957-58	Recent Price	Div. Yield %
INLAND STEEL W.C. (mil.) '56—$204.7; '57—$186.7	$ 406.7	$ 310.1	7.3%	6.4%	$5.26	$3.51	$9.43	$10.34	$4.50	$4.00	104 -69	104	3.8%
JONES & LAUGHLIN STEEL W.C. (mil.) '56—$153.7; '57—$142.9	432.3	300.8	6.1	1.8	3.58	.64	6.63	5.65	2.50[1]	2.50	64⅛-35	54	4.6
LUKENS STEEL W.C. (mil.) '56—$20.9; '57—$21.4	61.6	51.3	9.7	5.9	6.27	3.21	7.87	10.61	3.40	2.00	122⅝-45¾	75	2.6
NATIONAL STEEL W.C. (mil.) '56—$140.7; '57—$118.1	343.3	231.2	7.6	4.4	3.52	1.39	7.09	6.13	4.00	2.50	80¼-47⅛	66	3.8
PITTSBURGH STEEL W.C. (mil.) '56—$39.4; '57—$32.0	97.2	63.0	3.7	d2.4	1.91	d1.38	3.24	1.80	1.00[1]	—	37¼-14	19	—
REPUBLIC STEEL W.C. (mil.) '56—$244.9; '57—$212.2	692.6	417.2	7.6	5.7	3.40	1.53	5.83	5.45	3.00	3.00	59¾-37	57	5.2
SHARON STEEL W.C. (mil.) '56—$35.1; '57—$38.0	85.4	44.7	3.2	d2.2	2.48	d.93	6.28	3.68	3.00	.60	58⅛-25	33	1.8
U. S. STEEL W.C. (mil.) '56—$603.7; '57—$679.6	2,336.8	1,663.1	9.9	8.1	4.07	2.29	6.01	7.33	3.00	3.00	73½-48¼	75	4.0
UNIVERSAL-CYCLOPS STEEL W.C. (mil.) '56—$10.5; '57—$23.6	52.7	35.8	4.9	2.3	1.62	.51	3.89	2.87	1.00	.60[1]	43¼-19¼	25	2.4
WHEELING STEEL W.C. (mil.) '56—$83.7; '57—$86.7	139.3	102.6	5.3	2.8	3.36	1.08	8.20	5.32	3.40	2.00	69¾-33¼	48	4.1
YOUNGST. SH. & TUBE W.C. (mil.) '57—$220.8; '57—$200.8	366.9	236.3	5.9	3.3	6.38	2,27	12.62	12.35	5.50	5.00	123½-66½	103	4.8

W.C.—Working capital.
*—Indicated div. based on latest quarterly rate.

d—Deficit.
1—Plus stock.

Inland Steel: Low-cost, fully integrated producer. Its record as regards earnings, dividends, and operating levels is better by far than the industry average. Markets principally in important Chicago area. Large capital expenditures will pay off for this highly regarded company. (A-1)

Jones & Laughlin: Acquisition of Rotary Electric Steel put J&L into the stainless steel field. However, the company's principal customer is still the automobile industry. This is one of the two major firms that failed to cover its dividend in the second quarter.—(B-2)

Lukens Steel: Small floating supply and cyclical operations combine to make this one of the most widely fluctuating steels. Demand for specialty plate should pick up in the fourth quarter due to increased heavy engineering construction and shipbuilding. Roughly 70% of Lukens' volume is specialty products. (B-2)

National Steel: A large supplier of the auto industry, National also counts the container industry as a major customer. Tin plate sales should hold well for the balance of the year, and should a quick recovery in auto production develop, National will be among the first to benefit. (A-2)

Pittsburgh Steel: Principal products are sheet, tubing, strip and wire, and the auto industry is by far the largest customer, taking 31% of shipments in 1957. No genuine growth has been evident in this situation, and earnings have been subject to wide fluctuations. (D-3)

Republic Steel: Third-ranking company, fully integrated. Has interests in ore deposits in Canada and Africa. Output mainly sheets, bars, tinplate, pipe and wire. About 14% of product is special alloy and stainless. Position in the industry is good. (A-1)

Sharon Steel: Has generally poorer-than-average record. Competitive position is weak and its resources are severely limited. Auto industry uses at least one-third of Sharon's volume. Fluctuations in earnings have been more violent than have other companies. (C-3)

U.S. Steel: Ingot capacity better than 25% of industry total. Most completely integrated company, one of the two major firms to earn its dividend in the first quarter of 1958. Largest raw materials reserves in the industry, highest margins. Dividend of $3.00 appears safe. (A-1)

Universal — Cyclops Steel: Acquired Empire Steel and Reeves Steel effective Feb. 28, 1958. Universal produces alloy, stainless, and electric steels, is probably among the four largest producers of high-temperature super alloys. (C-2)

Wheeling Steel: Medium sized integrated company. Primarily a producer of hot- and cold-rolled sheet, tinplate, galvanized sheets and pipe products. In the postwar years improvements have resulted in lower costs and increased profits. (B-2)

Youngstown Sheet and Tube: Interest in this company centers on outcome of Justice Department's request for an injunction barring its merger with Bethlehem Steel. Youngstown's operations are fully integrated and the company is the sixth largest in the industry. (A-2)

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

production has moved up from 2.92 percent of production in the first six months of last year to 4.41 per cent. The rebound in construction is also reflected in this development. Yet to be felt is an upturn in auto production and a possible boost from the natural gas industry.

Auto production is of great importance to steel, and the direction in which this sector of the economy moves may indicate whether we will have a sustained upturn in steel production. For purposes of orientation, let's go back to the close of 1957.

The Picture at 1957 Year-End

With the steel industry still waiting for Detroit to heft its way out of the doldrums, final 1957 results were considerably less than encouraging. Expectations of a fourth-quarter pickup in automobile production, on which so much depended, had not been realized. The auto industry, usually the largest user of finished steel, ran second to construction in total consumption for the full year. However, even construction outlays were down generally and, following the Memphis Decision in November, many natural gas pipeline companies curtailed financing and expansion plans. The construction industry absorbed about 21.4 per cent of finished steel shipments in 1957 while the auto makers took only 18.9 per cent. This was in marked contrast to some of the better automobile years, when this industry accounted for up to 23 per cent of the total. At year-end, steel mills were operating at a monthly average of 65.5 per cent of capacity, against the January 1957 high of 97 per cent. Total production amounted to 7.4 million tons (net) for the month of December, versus 11.0 million tons in January 1957. The worst was yet to come.

1958 To Date

Disregarding the effects of strikes, the postwar low in steel production was recorded in April of this year, when the industry produced 5.5 millions tons (net) or about 47.8 per cent of capacity.

Although steel firms experienced difficulties in the first half, the picture was not entirely discouraging. With the sharply lower volume during this period, the industry managed to limit the decline in profit margins to a greater degree than in the past. A number of factors account for this. New facilities offered better operating efficiency, and, with lower demand, companies closed their older and less efficient plants, thereby reducing the effect of shrinking volume on operating margins. The most important single cushioning factor was probably the lower start-up costs for 1958, combined with smaller nonrecurring costs for facilities. The decline in scrap prices was also a contributing factor, but mostly for concerns dependent heavily on this material, such as producers of electric and alloy steels.

It is significant that no price-cutting was in evidence earlier this year. In the past, this practice has resulted in a sharp squeeze on profit margins.

From the April low, steel output proceeded to rise to 7.1 million tons in June, or 60.6 per cent of capacity, and then dropped moderately to 6.4 million tons in July, or 54.6 per cent of capacity. This setback was due, at least in great part to vacation shutdowns. However, July was important in that the month-long lag between the automatic wage hikes, provided for under union contracts already in force, and steel price increases, effected a temporary squeeze on profit margins. An increase of $4.50 per ton was finally decided on, as large enough to alleviate the profit squeeze to some extent, and not so large that steel customers could not pass on the increase to consumers. Another factor in this moderation may well have been a desire to avoid political censure. Even with this price increase, several smaller companies look for difficulty in maintaining sufficient profit margins.

Current Operations

The immediate demand for steel appears to have improved. In some instances, customers' inventory reductions seem to have reached a level where buying could not continue on a hand-to-mouth basis. Production for August was 7.3 million tons (about 62 per cent of capacity) slightly above the June figure and measurably better than July. Three factors are principally responsible for this. First, the already mentioned strength emanating from the farm and construction areas. This has promoted demand for structurals, plates, pipe, galvanized sheets, wire mesh, etc. Second, new car production has begun and initial orders from the automotive industry have been received. Third, certain customers are replacing their inventories. For instance, some metalworkers figure troubles on the international scene make continued low inventories too risky.

As this is being written, the steel industry is recording its eighth consecutive week of increased production without large volume orders from the automotive industry as yet. According to the American Institute of Steel Construction, July orders for fabricated structural steel ran at the highest level in the past fourteen months. It was also the second straight month in which these orders have risen above their comparable 1957 levels.

In short, certain segments of the steel industry are reflecting the moderate business recovery of recent months.

Demand Factors

Construction prospects for this year have improved recently, despite the sag in this sector of the economy only a few months ago. For the month of July, contracts awarded amounted to about $3.6 billion, roughly 24 per cent better than the level of July 1957. The months of May, June, and July have been the best in history for construction activity as a whole. Much of this increase has been in the heavy engineering, and residential fields. Probably the largest item contributing to the advance has been public works: namely, schools, public buildings, churches, etc. Apartment houses led the increase in residential construction, scoring a gain of 44 per cent over the year-earlier period. July contracts for non-residential buildings were about $1.1 billion, 12 per cent over the 1957 month. The Federal highway program is moving ahead.

Oil country goods represent another potential source of demand. Comparative figures of wells drilled and steel *(Please turn to page 705)*

Sales Battle Looms on 1959 Model Cars - Who Will Win?

By George L. Merton

THE automobile industry is completing its worst year since 1952. Yet, based on the hope that improved business conditions will aid auto sales next year, the car manufacturers are issuing their customary optimistic predictions which usually accompany presentation of the new models.

Automotive leaders, as well as Harlow Curtice, retiring president of General Motors, are predicting that the industry will make and sell 5.5 million cars next year, compared with an estimated 4.3 million for 1958. They are banking on a general rise in industrial production and in business sentiment to stimulate increased sales of new cars.

In the past, the auto industry, while occasionally accurate in its forecasts, has tended to overestimate the market for new cars especially since 1955. Hence, the estimates for 1959 must be weighed carefully. The industry was taken by surprise during the last three years, by the shift in consumer spending from automobiles and other consumer durables to areas such as services. Automobiles are currently accounting for a much smaller share of disposable income than was the case in record-breaking 1955, when 7.2 million cars were sold.

Some improvement in car sales may occur next year, if disposable income continues to rise and the public becomes less concerned over unemployment and the business outlook.

But to expect a gain of over 25 per cent in new car sales next year, as the industry is currently predicting, may represent too optimistic a view. During the last three years, many persons who were new car buyers in the early postwar years have returned to the used car market for personal transportation to avoid new debt and to balance their budgets. Others have shifted to lower priced or smaller "economy" vehicles, so that they could direct a larger share of their income to education, medical services, etc. It is not likely that a majority of these individuals will suddenly upgrade their automobile purchases, merely because the business outlook appears to be somewhat better. Some improvement in unit output, however, seems reasonable to expect.

Pluses and Minuses in the Automobile Outlook

On the favorable side, the industry is offering freshness of styling in its 1959 cars, on a scale not witnessed since the 1955 model cars enjoyed their record-breaking vogue. Some of the changes in the new cars are functional, such as the substantial increase in glass area, and the general movement towards better fuel economy. It is possible that these styling and engineering changes, on which the industry has spent at least $750 million for tooling, will stimulate widespread interest, and will attract customers to the market place in larger number

than has been the case during the 1958 model year.

On the unfavorable side, the industry has not resolved the question of the big car versus the little car. There are strong indications however that the Big Three, by 1960, will be ready to introduce new smaller cars with a wheelbase of not over 108 inches, compared with present 116 inch minimums for low priced cars. Some buyers may choose to wait until 1960 to see Detroit's new small cars, before making any purchase.

The credit picture is generally on the favorable side. Many car owners have paid off their debts on 1954, 1955, and 1956 model cars, and are in a position to reenter the market. Last year, it was estimated that the completion of instalment payments would add 1 million to the number of new car buyers this year. The recession, however, coupled with the steady rise in car prices, induced most of these new buyers to defer their commitments. Now another group of nearly 1 million car owners have paid off all auto instalment debt and are in a position to trade for a new car. Whether they will do so or not will depend on employment conditions, the state of general business, and the extent to which the newly styled 1959 model cars can generate widespread enthusiasm.

OUTPUT OF PASSENGER CARS—FIRST EIGHT MONTHS

Company	Number of Cars 1958*	1957
General Motors	1,461,000	2,011,175
Ford	755,000	1,336,882
Chrysler	391,000	934,447
American Motors	111,000	63,653
Studebaker-Packard	23,400	44,763

SALES TO CONSUMERS—FIRST EIGHT MONTHS

	1958*	1957
Passenger Cars	3,168,359	4,105,978
Trucks	475,589	578,982

*Estimated

Also on the favorable side is the fact that in 1958 over 4 million cars have travelled the last mile in 1958 and have been scrapped. These will have to be replaced. Owners of most of these vehicles have gone into the used car market and have bid up prices on cars of the 1954, 1955, 1956 and 1957 vintage. Today used car prices are higher than a year ago, and inventories of used cars are equal to 30 days supply or less—a reduction from the levels of last year. This improvement in used car prices aids sales of new cars, since it means that new car dealers can afford to offer more for used cars taken in trade for 1959 model cars. Already, since May, a gain of about 10 per cent in new car sales has occurred.

The Price Problem

The biggest problem facing the auto industry is the price problem. Many potential customers have decided that they could not afford to pay the price for a new car, with the annual depreciation charge of $500 or more which this entails. Inflation is thus intensifying the price problem of the auto industry.

Car prices on the 1959 models, it appears, will be at least 2 or 3 per cent higher than 1958 model price tags. This seems assured regardless of the outcome of the present collective bargaining of the industry with Walter Reuther's United Auto Workers.

The die has been cast on prices as a result of the rise in steel, tires, and many other parts, in recent months as well as the continued upward trend in wage rates. Even before any settlement with the UAW, the Big Three coordinating their bargaining as they never have before, have offered an extension of the present contract for two years. This would mean annual wage rises for "productivity" of 7 cents an hour, or 14 cents for two years, plus cost of living escalation, which since June has already amounted to 3 cents. The auto companies are maintaining a united front. They say this is their final offer and have indicated their willingness to accept a strike in their determination to head off further rises in labor costs. An offer similar to the 22 cents which resulted in the settlement in 1955 is not in the cards this year, owing to the recession. Auto companies' profits have been hit too hard to warrant any substantial rise in wage rates. Hence a strike against Ford or GM is a possibility.

The Small Car Problem

The inflationary spiral in wages and prices goes on and on. With each hike, the auto industry may lose a larger proportion of its market to low priced foreign cars, or be forced to concentrate a larger proportion of its own output in new low priced small economy cars now being considered for introduction late next year. On those small cars profits per unit would be lower than on present autos. Hence, inflation is far from being an unmixed blessing for auto producers. It is bringing problems in its wake and the solution is not yet in sight, even if the Big Three definitely decide to make small economy cars in this country.

At present, foreign cars are being imported at a rate of between 350,000 and 400,000 cars a year, or around 8 per cent of the American output. It can be assumed that, if the Big Three bring out their small economy cars, the foreign ratio will stop rising, and may even dip somewhat from present levels. But, foreign vehicles cannot be ruled out altogether. In the smaller sizes, 100 inch wheelbase and less, foreign cars will still undersell the proposed American 108 inch wheelbase cars by at least $200 to $300. On this basis, there will continue to be a market for such imported vehicles. And the American producers cannot pre-empt this tiny car field, because their labor costs are probably too high to permit them to meet the foreign sales prices, at the Atlantic and Pacific seaboards, even with the installation of tooling and automated machinery to offset low European wage rates.

Potential Auto Market

The American automobile industry, however, will still hold a vast market in the low-priced, medium-priced and high-priced fields in which it is currently operating. Even at the depths of this year's reces-

sion, it was still selling over 13,000 cars a day. For most Americans, particularly those with families and with long distances to travel, the larger, costlier cars seem to offer much greater appeal and usefulness than European economy cars. As the American market grows, sales of the Big Three will grow also. By 1965 it is estimated that the number of American households will have increased by over 12 per cent. In addition, auto companies are counting on the number of two-car families rising nearly 50 per cent to 11 million in the next seven years, which would mean a gain of over 3 million vehicles on the road from this source.

If the American automobile industry were to score a gain of 12 per cent in domestic sales volume next year, this would bring production to around 5 million passenger units, after making allowance for exports of over 150,000 cars. On such a gain in sales, net profits of leading auto companies could rise around 25 per cent, as has been demonstrated in the past.

But any gains in earnings registered by the three leading companies will vary widely. General Motors, has made the best showing of the Big Three this year, because its products have generally been styled more freshly and are easily identified as 1958 models. Its share of the market has come close to 50 per cent, a rise of nearly 4 percentage points, while the share enjoyed by Ford and Chrysler has dipped fully as much as GM's gain.

Intensified Competition on New Models

Previews of the 1959 models suggest that **General Motors** may again be out in front of competition. It alone has entirely new bodies on its full line — an unparalleled feat, considering that the 1958 models, including Chevrolet, Pontiac, Oldsmobile and Buick, were substantially more than a facelift.

The 1959 GM cars are generally longer, lower, and more luxurious looking. To some, this might seem to be a mistake, since a large group of American consumers is asking for more economical transportation. But GM is counting on an upswing in general business to make the timing right for its luxurious styling. There is no question but that these cars will be readily identified as 1959 models, because of the newness of styling, with fins that flare upward and outward and with greatly increased glass area.

Ford and Chrysler cars, too, have been substantially restyled, with more glass and more pronounced fins, and are also unmistakably 1959 models.

While we must await the public's acceptance of 1959 models for the final answer . . . It is hard to see, how either Ford or Chrysler will be able to cut into GM's share of the market next year. GM should be able to hold close to 50 per cent of the market. If the total market in 1959 expands 12 per cent over 1958, GM should score a gain of fully that amount. This could mean an earnings rise of 20 per cent for GM next year if its volume goes up 10 per cent, and an earnings gain of 30 per cent, if its volume rises 15 per cent. On the other hand, if the market shows little or no gain next year, GM should show about the same earnings as in 1958, barring higher wage costs. This year, GM has been the only member of the Big Three to earn its dividend in the first half, and, while third quarter net will be down sharply due to changeover cutbacks in output, the fourth quarter net should rise sharply, with the dividend covered by a fair margin unless there is a strike. In the first half, GM's net was $1.17 a share, against $1.71 a share in the same period of 1957.

For Ford and Chrysler, the problem during the rest of this year will be to get out of red ink. Chrysler made some progress in the second quarter, in which its net loss of $10.1 million was somewhat less than the first quarter loss of $15.1 million. But the third quarter loss will be a heavy one owing to change-over costs.

In the final quarter, **Chrysler** will be restocking its dealers, and output and net profit in this period should be the best of the year. Since Chrysler is not repeating the mistake which it made on its 1958 line of providing too few identification changes, the company should be able to boost its share of the market somewhat in 1959. But it will require a substantial improvement in the auto industry's total market to put Chrysler on a basis where it is able to return to the $4 dividend which it paid last year.

Chrysler, however, has cut overhead costs substantially, and it should profit from these moves later on, as the auto market expands.

Ford has continuing problems, because of its ill-timed move to increase its share of the medium-priced field, with the introduction of the Edsel a year ago. The medium priced field as a whole will be doing well next year to hold its present reduced share of the market, owing to sharp competition which it is receiving from the "low priced three" — Chevrolet, Ford and Plymouth. Each of these cars is offering popular luxury models which actually sell at higher prices than the lowest priced Buick, Mercury or Dodge.

Ford's chief money-maker, the Ford line, is more conservatively styled than Chevrolet. But its styling changes are easily identifiable, and the Ford line should come close to holding its present share of the market. In the medium priced and high priced ranges, however, Ford will be up against rough competition from GM and Chrysler. In spite of far-reaching economies, Ford will not find it easy to make substantial progress in sales and earnings until it has its house in order in the medium priced and higher priced lines. In the second quarter, Ford showed a deficit of 32 cents a share, against net of 42 cents in the first quarter.

American Motors has scored a sensational success this year with sales of 162,000 1958 model Ramblers. This output nearly doubled the 1957 model output of 84,699. On its present volume, American Motors has been able to rack up earnings of $2.61 a share in the nine months ended June 30, against a loss of $1.16 a share in the same period of last year. Such earnings, of course, are made possible in part by the carry forward of extensive prior losses, which eliminate income tax liabilities this year and for some time to come.

But American Motors substantial success this year is its very danger. The sharp rise in volume shown by its 108 inch wheelbase and 100 inch wheelbase cars has told the Big Three what they must do to hold their own share of the market in the years to come.When the Big Three bring out their

Position of Leading Automobile and Truck Manufacturers

	1st 6 Months						Full Year						
	Net Sales		Net Profit Margin		Net Per Share		Earned Per Share		Dividend Per Share		Price Range	Recent Price	Div. Yield
	1957 — Millions —	1958	1957 %	1958 %	1957	1958	1956	1957	1957	Indicated 1958*	1957-1958		%
AMERICAN MOTORS; W.C. (mil.) '56—$54.6; '57—$46.2	$291.8[1]	$358.5[1]	[d]2.2%	4.0%	[d]$1.16[1]	$2.61[1]	[d]$3.48	[d]$2.12	$ —	$ —	17½- 5¼	16	—%
CHRYSLER; W.C. (mil.) '56—$208.2; '57—$425.7	2,061.0	1,075.1	4.3	[d]2.3	10.29	[d]2.89	2.29	13.75	4.00	1.00	82¼-44	52	1.9
FORD MOTOR CO.; W.C. (mil.) '56—$284.0; '57—$435.0	3,009.5	1,987.3	5.6	.2	3.15	.10	4.38	5.19	2.40	1.60	59⅝-35⅞	41	3.9
FRUEHAUF TRAILER; W.C. (mil.) '56—$98.7; '57—$90.3	115.3	95.9	1.9	[d].4	.32	[d].09	.94	.21	.70[2]	—	24¼- 8¾	13	—
GENERAL MOTORS; W.C. (mil.) '56—$1,745.9; '57—$1,861.3	5,914.4	5,121.2	8.0	6.5	1.71	1.17	3.01	2.98	2.00	2.00	47½-33⅛	43	4.6
INT. HARVESTER; W.C. (mil.) '56—$425.1; '57—$416.0	553.1	504.3	3.5	3.8	1.20	1.18	3.16	2.88	2.00	2.00	38¾-25⅝	38	5.2
MACK TRUCKS; W.C. (mil.) '56—$77.9; '57—$122.8	140.3	122.2	4.6	2.6	2.55	1.25	4.75	4.33	1.80	1.80	32¾-19¾	30	6.0
STUDE.-PACKARD; W.C. (mil.) '56—$54.6; '57—$52.2	105.0	70.6	[d]6.5	[d]18.0	[d]1.06	[d]2.07	[d]6.73	[d]1.73	—	—	8¼- 2⅝	7	—
TWIN COACH; W.C. (mil.) '56—$5.8; '57—$3.1	13.4	20.7	3.5	3.5	.79	1.31	[d]1.75	[d]6.22	—	—	12¼- 2⅞	13	—
WHITE MOTOR**; W.C. (mil.) '56—$68.6; '57—$76.4	109.8	125.2	3.0	2.0	3.27	2.43	7.05	6.66	3.00	3.00	53⅝-34¾	51	5.8

W.C.—Working capital.
*—Based on latest quarterly rate.
d—Deficit.
**—3/28/58, sale of assets of Diamond T Motor Car to White Motor Co.
1—9 months ended June 30.
2—Plus stock.

own economy cars, they will have the same wheelbase as the 108 inch Rambler. By the end of 1959, competition will become extremely keen in this segment of the car market.

If the demand for economy cars, including foreign cars, rises to 800,000 or 1 million a year, within two years, with Big Three small cars offered in the 1960 and 1961 model years, it will not be easy for Rambler to hold on to its present volume. For it can be assumed that General Motors, Ford and Chrysler would quickly capture well over 50 per cent of this market, in few of their powerful dealer organizations. The foreign imports should continue to account for at least 300,000 to 400,000 cars. This would put a tight squeeze on Rambler. Hence the latter company is holding its costs closely in check, so that it can continue to operate in the black on a volume of 125,000 or even less.

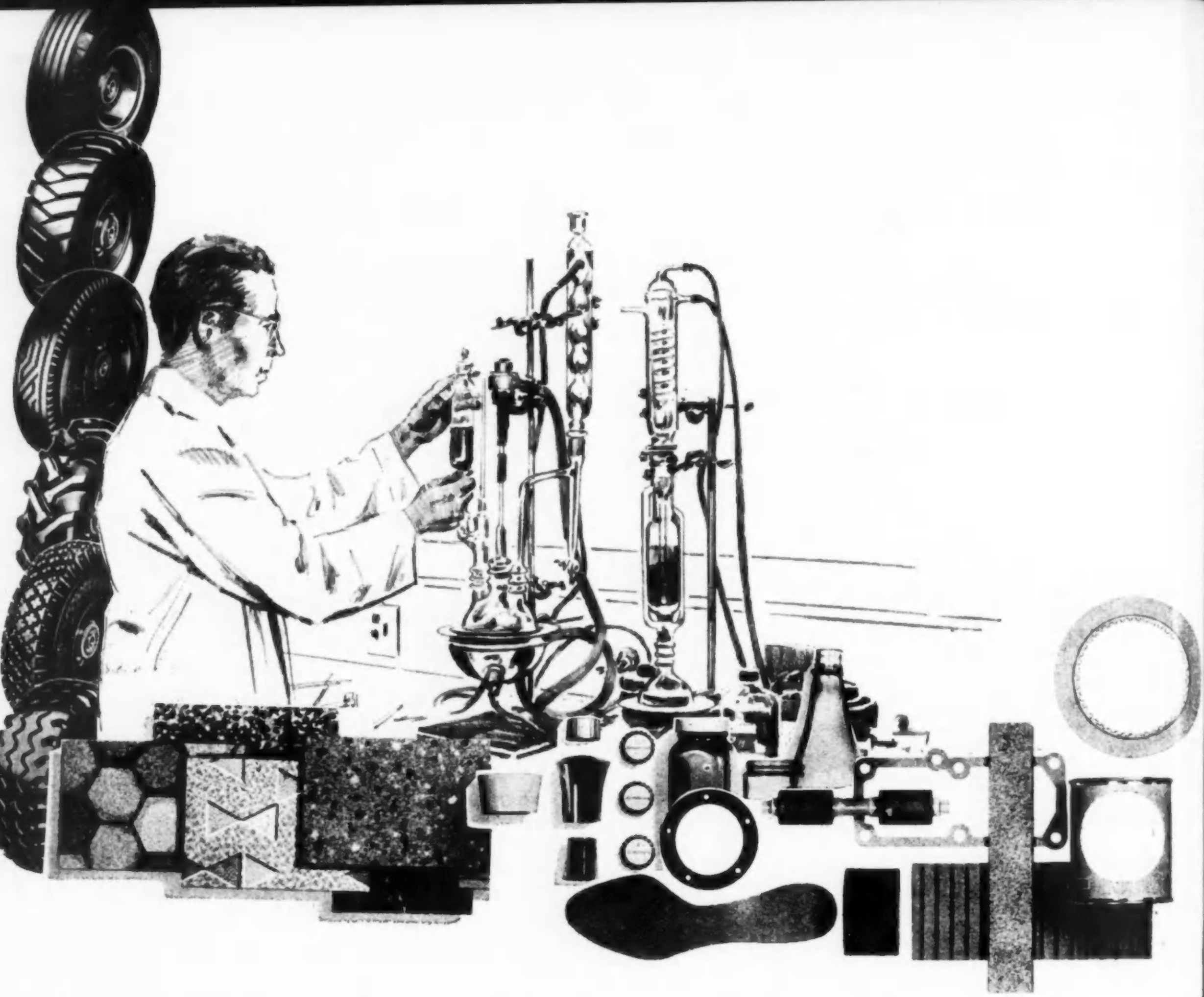
Of course, if the small car market were to expand swiftly to the point where it accounts for 30 to 40 per cent of the total market, Rambler will not have much to worry about. Under those conditions, its total annual volume might hold steady or even increase. What Rambler must accomplish is to stabilize its dealer structure. Much of its sales gain in the last year has been made possible by inducing established Big Three dealers to accept Rambler cars as a side line.

Some of these dealers will prefer to sell a Big Three economy car, when one is offered. This could mean the loss of some of Rambler's best dealers.

Studebaker-Packard faces a last ditch attempt to launch a small compact economy car for 1959. Theoretically, such a car should enjoy substantial sales, judging by the success which American Motors' Rambler has enjoyed.

But it takes time and an excellent dealer organization to establish a new car. Studebaker-Packard will have neither the time nor the dealers. For within a year, the entrance of the Big Three into the small car field will make conditions extremely competitive, Furthermore, Studebaker-Packard thus far has not been able to line up the dealer organization which Rambler has succeeded in doing.

The ending of the Curtiss-Wright management contract, and entrance *(Please turn to page 709)*



how much pick up ahead for TIRE COMPANIES?

by Oliver Norton

THE outlook for the rubber and tire industry has improved in recent months as a result of an upturn in sales of replacement tires and a slightly better demand for original equipment tires purchased for new automobiles.

Earnings of the major rubber companies are still running somewhat behind the levels of a year ago. But the financial reports of these companies for the second quarter showed a smaller decline, compared with a year ago, than they reported for the first quarter. The industry, moreover, in spite of keen competition, has demonstrated since mid-year its ability to pass on to its customers in the form of higher prices the rise in labor costs resulting from a new collective bargaining agreement with the United Rubber Workers. The rise in prices, averaging about 3 per cent on replacement tires, and a corresponding amount on other tires should fully offset the increase of 8 cents an hour in wages. Hence earnings for the second half of the year should be somewhat better than in the first half, particularly when auto companies get into production in the fourth quarter on their 1959 lines of cars.

The first quarter of this year may have marked the low point in earnings for the industry, during the present recession. In this period, earnings of some rubber companies were cut over 50 per cent, although the Big Four group — Goodyear, Goodrich, Firestone and U. S. Rubber, generally showed greater stability. The diversification of those companies has stood them in good stead, with export business holding up particularly well.

Tire companies are not as volatile in earnings and sales as auto companies are, since about two-thirds of total tire volume is in replacement tires, and only one-third in original equipment.

In the winter months of this year, the effects of the recession were felt in replacement sales as well as in original equipment business, with the

latter down rather sharply owing to a drop of over 30% in passenger car production. But the decline in replacement sales was apparently largely a seasonal affair caused by particularly bad weather, rather than by a change in the driving habits of car owners. The Spring and Summer months have shown sales replacement tires running slightly ahead of a year ago.

For this year, it now seems possible that shipments of the entire industry will total over 80 million passenger casings. This would represent a decline of about 10 million from last year's total of 90.2 million passenger tires. But it would be somewhat better than the total of about 75 million passenger tires which appeared to be shaping up for 1958 only a few months ago. The industry has thus shown a degree of stability, rivalling that shown in the recession of 1954, both in sales and in earnings. The Big Four companies moreover, have been able to maintain dividend payments thus far, and if sales improve, as is now being forecast, they should not be troubled by prospects of dividend cuts.

For 1958, it appears that replacement tire shipments will total 58.5 million, a new record, or about 1.5 million (or 3 percent) more than the 57 million shown for 1957.Original equipment shipments however, will show a decline that will far more than offset the rise in replacement tires. It is estimated that the total for original equipment this year will be only 22.3 million tires, reflecting the decline of about 30 per cent in passenger car output. This would represent a decline of 10.0 million from shipments of over 32 million original equipment tires in 1957.

Truck tire shipments this year are estimated at 11.7 million, including original equipment and replacement, against over 12.5 million last year.

Second and Third Line Tires

Sales of recapped tires, as well as second and third line tires have been stimulated by the recession. Many car owners have been trying to economize on tires. The trend has been accentuated by sharp competition among tire companies. Second line tires have not always been satisfactorily identified as such this year when tire companies have offered them at low prices. The fact that lower priced, lower quality tires have been accounting for a larger share of the total tire business has tended to reduce profits of tire companies. If this trend is reversed, as a result of a rise in the income of the average tire user, earnings of tire companies would show an increase during the next year. The tire companies, in their advertising campaigns have recently been trying to stress premium and first line tires for sale in the replacement market, and this campaign may produce some results.

1959 Outlook

Looking into 1959, much will depend on the trend in sales of new automobiles, as well as on the willingness of car owners to use their cars more and to spend more for better tires. According to one optimistic forecast, based on the expectation of an improvement in general business conditions, shipments next year may total 101 million tires, or about 10 million more than this year.

This forecast, however, projects original equipment sales of 28.1 million tires, which would mean production of 5.5 million passenger cars. This estimate may prove too high by several million tires. Replacement sales are estimated next year at about 60 million, while truck tire sales are estimated at 12.9 million.

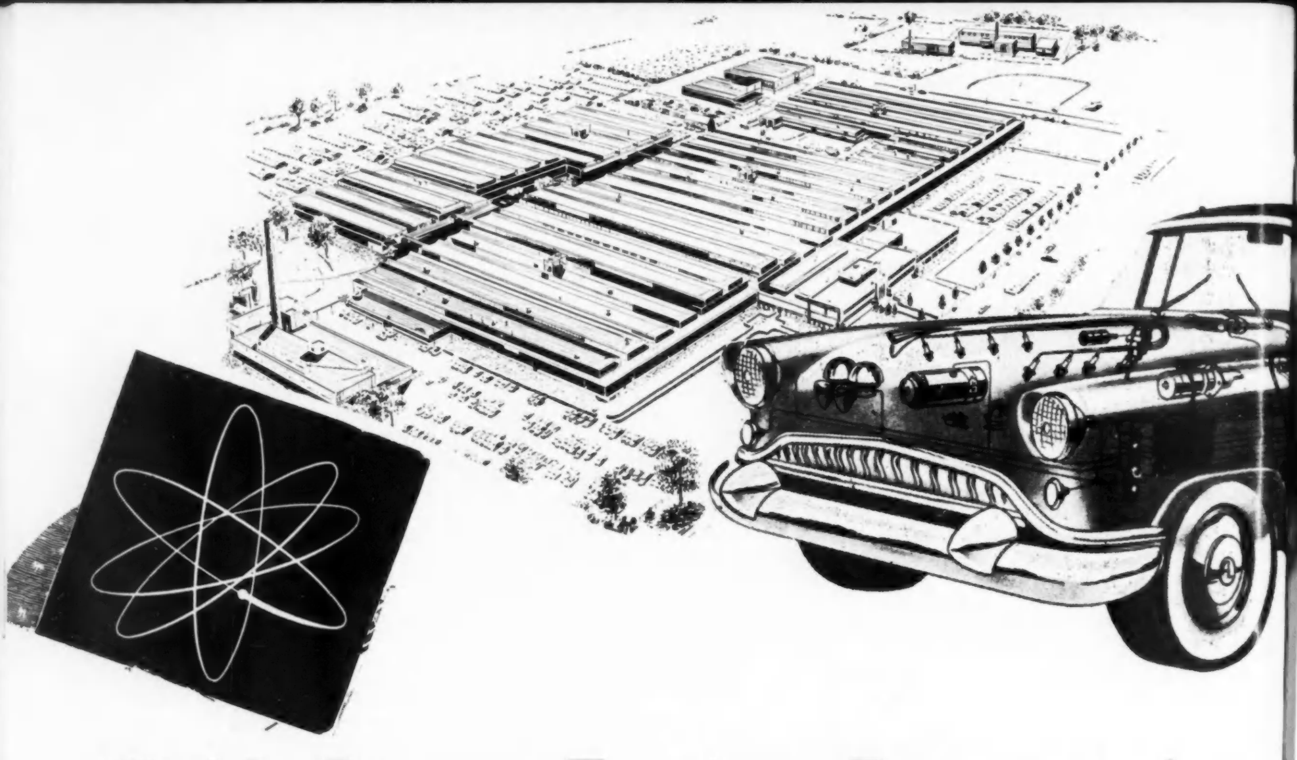
The prophesy of tire company sales executives of record replacement sales of automobile tires this year, with a rise again next year, seems somewhat optimistic, as it presumes a very large increase in the sale of original equipment tires for next year.

Through June of this *(Please turn to page 706)*

Statistical Position of Leading Tire & Rubber Companies

	1st 6 Months: Net Sales 1957 (Millions)	Net Sales 1958 (Millions)	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Full Year: Earned Per Share 1956	Earned Per Share 1957	Dvidend Per Share 1957	Dvidend Per Share 1958*	Price Range 1957-1958	Recent Price	Div. Yield
DAYTON RUBBER W.C. (mil.) '56—$17.2; '57—$20.5	$37.3	$38.2	2.4%	1.3%	$ .95	$ .44	$2.79	$1.48	$1.40	$1.40	23¾-14½	19	7.3%
FIRESTONE TIRE & RUBBER W.C. (mil.) '56—$321.2; '57—$329.0	550.4	490.8	5.1	4.3	3.44	2.52	7.43	7.32	2.60[1]	2.60	101¼-81⅛	97	2.6
GEN. TIRE & RUB. W.C. (mil.) '56—$67.2; '57—$79.4	205.9	202.2	2.8	1.5	1.13	.52	2.30	2.12	.67[1]	.70[1]	32⅞-18⅜	26	2.6
GOODRICH, B. F. W.C. (mil.) '56—$245.1; '57—$243.9	366.0	333.9	5.3	5.9	2.21	1.60	4.90	4.40	2.20	2.20	79¾-53½	66	3.3
GOODYEAR TIRE & RUB. W.C. (mil.) '56—$451.3; '57—$449.1	721.0	648.0	4.9	4.2	3.47	2.57	6.03	6.12	2.40[1]	2.40	95¼-69	88	2.7
LEE RUBBER & TIRE W.C. (mil.) '56—$18.8; '57—$19.3	21.7	20.6	3.2	3.1	.84	.77	1.90	2.09	1.40	1.40	24¾-17⅞	21	6.6
SEIBERLING RUBBER W.C. (mil.) '56—$10.5; '57—$10.5	23.2	21.4	2.2	1.4	.96	^{d}.12	2.05	1.75	.60[1]	.60	15⅝-8⅛	13	4.6
U. S. RUBBER W.C. (mil.) '56—$285.7; '57—$282.0	451.3	403.1	3.2	2.1	2.77	1.06	4.83	4.27	2.00[1]	2.00	49⅜-30⅜	38	5.2

*—Based on Current quarterly rates.
W.C.—Working capital.
d—Deficit.
1—Plus stock.



Highly Diverse Earnings Prospects for AUTO PARTS MAKERS

—Under diversification

by Lawrence Jackson

◆ In an industry so keenly competitive and so diverse as to products, as well as to geographical location of plants, generalizations descriptive of prospects for auto parts manufacturers are meaningless. Moreover, leading accessory makers have diversified their activities so extensively in recent years that underlying trends in motor car sales may not necessarily prove a determining factor in measuring sales and earnings potentials of an individual parts maker. Generally speaking, however, it may be said that the outlook for 1959 is more promising than that which will go into the records for 1958.

Hope for improvement may be found in the fact that indications now point to a moderate increase in output of new cars for the 1959 model year. Detroit manufacturers are renowned for their perennial optimism, but more basic reasons are offered for projecting a higher volume of production next year than in 1958. For one thing, general business conditions are likely to hold at a high level and improve at least moderately. Secondly, total personal income, upheld by unemployment and social security payments, is shoring up consumer buying even in those areas where comparatively large unemployment exists. Installment debt has been steadily reduced, and the automobile has become a major transportation necessity.

Yet, whether this can be translated into the buying of an increased number of cars next year is a matter of conjecture. Optimistic calculations do not take into consideration that there may be more pressing alternative uses for family funds or a more cautious attitude because of current uncertainties. They base their optimism on the estimate that the demand for automobiles has mounted to about 4 million units annually—to be swelled by new orders resulting from the increasing number of smash-ups and the fact that repair costs have skyrocketed to such an extent that owners and insurance companies no longer find it economical to attempt repair of seriously damaged vehicles.

Growing Replacement Market

This potential market, added to the demands from new family formations, the long term growth in motor car "population"—such as the consistent drift from urban to suburban communities — raises a promising picture for the parts makers. They see such a growth in terms of a rapidly expanding market for replacement accessories, such as batteries, tires, mufflers and other components that yield to the elements as well as to contact with other vehicles. The number of cars and trucks on the nation's highways is rising from year to year. Companies in position to serve the rapidly expanding replacement market, especially directly through garages and distributors, are likely to benefit most.

Statistical Data on Leading Automobile Parts and Accessories Companies

	1st 6 Months: Net Sales 1957 (Millions)	Net Sales 1958 (Millions)	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Full Year: Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1957	Dividend Per Share Indicated 1958*	Price Range 1957-1958	Recent Price	Div. Yield %
ARVIN INDUSTRIES W.C. (mil.) '56—$14.2; '57—$14.5	$35.4	$22.7	5.6	1.2	$2.91	$ .32	$4.22	$4.10	$2.00	$1.00	36¼-23⅝	26	3.9%
BENDIX AVIATION W.C. (mil.) '56—$112.5; '57—$126.1	541.1[1]	476.3[1]	3.7	2.7	3.97[1]	2.65[1]	5.04	5.44	2.40	2.40	66¾-42	58	4.1
BORG-WARNER W.C. (mil.) '56—$182.4; '57—$190.1	321.6	266.7	5.2	3.6	1.90	1.06	4.01	3.81	2.40	2.00	46 -25⅝	33	6.0
BUDD CO. W.C. (mil.) '56—$66.2; '57—$64.5	170.5	112.6	3.1	.6	1.16	.10	1.97	1.91	1.41	1.00	21½-13⅛	16	6.2
CLEVITE CORP. W.C. (mil.) '56—$30.6; '57—$30.6	39.6	31.8	7.0	4.5	1.48	.74	2.06	2.08	1.15	1.00	25½-15⅛	19	5.2
DANA CORP. W.C. (mil.) '56—$32.5; '57—$39.1	153.4[2]	131.4[2]	7.0[2]	5.9[2]	4.22[2]	3.07[2]	6.83	5.45	3.00	3.00	61 -40½	55	5.5
EATON MFG. W.C. (mil.) '56—$31.1; '57—$32.3	121.5	84.0	5.4	3.6	3.58	1.66	7.06	6.02	3.00	3.00	64¼-38¼	50	6.0
ELECTRIC AUTO-LITE W.C. (mil.) '56—$65.6; '57—$74.5	151.8	84.2	4.2	1.5	4.00	.82	1.47	4.72	2.50	1.20	40⅜-24½	36	3.3
ELECTRIC STORAGE BATTERY W.C. (mil.) '56—$43.5; '57—$46.0	67.3	57.6	3.4	2.7	1.40	.94	3.23	3.44	2.00	2.00	35¼-25½	34	5.8
HOUDAILLE INDUSTRIES W.C. (mil.) '56—$20.8; '57—$22.2	41.5	27.4	4.2	2.0	1.25	.26	2.02	2.60	1.00[4]	1.00	23¾-15⅞	18	5.5
KELSEY-HAYES CO. W.C. (mil.) '56—$23.9; '57—$35.1	152.0[2]	132.5[2]	3.8[2]	2.0[2]	4.37[2]	1.85[2]	5.28	6.22	2.40	2.40	49¾-25⅛	37	6.4

*—Based on latest quarterly rates.
W.C.—Working capital.
[1]—9 months ended June 30.
[2]—9 months ended May 31.
[3]—No div. action taken 7/22/58.
[4]—Plus stock.

Arvin Industries: Leading manufacturer of mufflers for principal auto makers has diversified in electrical appliances, especially radios, and in metal furniture. Sharply lower earnings indicated this year, but reduced dividend seems secure. (B-3)

Bendix Aviation: Increasing emphasis on electronices for military services resulting from intensive research enlarges sphere of activity in aircraft industry. Lower earnings indicated this year, but recovery seen in 1959. (B-3)

Borg-Warner: Loss of Ford contract on automatic transmissions expected to pose problems for 1959. Labor trouble would have serious impact on fourth quarter operations. More conservative dividend appears secure despite profit decline. Longer-term outlook appears favorable. (B-3)

Budd Co.: Rising shipping costs and keen competition in body parts, wheels, etc., contributing to disadvantage of this company's position. Lower earnings indicated for 1958 because of drop in volume. Lower dividend appears secure. (C-3)

Clevite: Automotive output concentrated on engine parts on which margins are slim. Competition also keen on similar items for aircraft, farm machinery, etc. Electronics more promising. Lower earnings and dividend indicated for 1958. (B-3)

Dana Corp.: Bulk of sales derived from original equipment for passenger car and truck markets. Trend toward unitized body in some makes may handicap volume in chassis frames. Strong financial position principal characteristic. (B-3)

Eaton Mfg.: Despite efforts at diversification, about 70 per cent of output stems from auto industry. Axles, engine parts and springs account for major portion. Reduced original equipment sales handicap on 1958 earnings. (B-3)

Electric Auto-Lite: Gradual loss of contracts for supplying Chrysler divisions with original equipment may mean serious contraction in sales. Plants may be sold or devoted to other items. Company buying in own stock. (B-3)

Electric Storage Battery: Diversification in flashlight and radio battery field offers promise of expansion and production economies. Holds strong position in replacement market. Lower earnings reflect drop in auto output. (B-3)

Houdaille Industries: Contraction in auto parts activity through elimination of unprofitable lines and diversification in non-automotive lines contributing to improved showing. Best gains in highway materials and industrial machinery. (C-3)

Kelsey-Hayes: Aggressive and efficient management has withstood threat of major car companies to integrate components such as wheels and brakes. Diversification in aircraft gains momentum. Earnings for year just ended sharply lower. (B-3)

RATINGS: (A)—Best Grade.
(B)—Good Grade.
(C)—Speculative.
(D)—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Statistical Data on Leading Automobile Parts and Accessories Companies —(Continued)

	1st 6 Months: Net Sales 1957 (Millions)	Net Sales 1958 (Millions)	Net Profit Margin 1957 %	Net Profit Margin 1958 %	Net Per Share 1957	Net Per Share 1958	Full Year: Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1957	Dividend Per Share Indicated 1958*	Price Range 1957-1958	Recent Price	Div. Yield %
KING-SEELEY W.C. (mil.) '56—$10.4; '57—$9.4	$27.7	$27.6	3.0%	2.6%	$1.79	$1.54	$3.78	$2.04	$2.50	$1.00	35¼-19½	24	4.1%
LIBBEY-OWENS-FORD GLASS W.C. (mil.) '56—$42.9; '57—$51.9	118.7	92.7	12.1	6.4	2.74	1.14	5.59	5.36	3.60	3.60	92 -65¼	88	4.0
MIDLAND-ROSS CORP.[1] W.C. (mil.) '56—$20.2; '57—$28.9	n.a.	34.6	n.a.	2.9	n.a.	.94	4.85	6.91	3.75	3.00	53 -35	39	7.7
MOTOR WHEEL W.C. (mil.) '56—$17.1; '57—$14.0	36.5	25.7	2.3	d.005	1.00	d.02	1.70	d.95	1.60	.60	23⅝-12½	15	4.0
ROCKWELL STANDARD CORP.[2] W.C. (mil.) '56—$47.3; '57—$54.2	145.5	98.2	5.9	3.7	1.74	.75	2.51	3.20	2.00[4]	2.00	31⅝-22⅛	27	7.4
SMITH (A. O.) CORP. W.C. (mil.) '56—$66.1; '57—$65.6	193.9[3]	193.6[3]	3.4[3]	2.9[3]	3.31[3]	2.85[3]	3.55	4.86	1.45[4]	1.60	44¾-25¾	36	4.4
STEWART-WARNER W.C. (mil.) '56—$33.1; '57—$35.7	60.9	44.9	5.5	5.0	2.23	1.44	4.41	3.78	2.00[4]	2.00	41⅝-27¼	36	5.5
THOMPSON PRODUCTS W.C. (mil.) '56—$35.9; '57—56.2	196.0	141.6	4.2	2.6	2.96	1.29	4.60	4.20	1.40	1.40	89¾-41⅜	57	2.4
TIMKEN ROLLER BEARING W.C. (mil.) '56—$67.7; '57—$90.2	n.a.	n.a.	n.a.	n.a.	2.42	1.16	4.50	3.89	2.25	2.00	53⅝-30	43	4.6
YOUNG (L. A.) SPRING & WIRE W.C. (mil.) '56—$14.2; '57—$13.6	n.a.	35.9	n.a.	1.3	.52	1.27	3.45	2.79	2.00	2.00	35½-25⅛	35	5 7

(W.C.)—Working capital.
*—Based on latest quarterly rates.
d—Deficit.
1—Formerly Midland Steel Products.
2—Formerly Rockwell Spring & Axle.
n.a.—Not available.
3—9 months ended April 30, 1958.
4—Plus stock.

King-Seeley: Production of non-automotive items, such as power tools and fractional horsepower motors, has become stabilizing factor. With benefit of acquisition, earnings for July 31 fiscal year estimated to have been favorable. (B-2)

Midland-Ross: Threat of loss of large frame contracts necessitated diversification in other lines. Dependence on Chrysler contributing to unsatisfactory showing this year. Dividend policy has been liberal. (B-3)

Motor Wheel: Sharp contraction in original equipment sales having adverse effect on 1958 results, but plant integration program expected to permit substantial economies next year. Dividend policy appears unsettled. (C-3)

Rockwell-Standard: Dependent to large extent on commercial and passenger car makers for original equipment sales of springs, axles and bumpers. Acquisition of Aero Design provides diversification in aircraft field. (B-3)

Smith (A. O): Growth of volume in tubular steel products for petroleum industry has proved favorable stabilizing influence. Company is major supplier of chassis frames for General Motors. Dividend policy liberal. (B-3)

Stewart-Warner: Steady decline in original auto equipment shipments as military contracts have expanded and diversification in other directions has added volume. Earnings indicated sharply lower this year. (B-3)

Thompson Products: Rapid expansion in aircraft manufacturing since Korean incident contributes to diversification of output in non-automotive items. Replacement business in valves remains substantial. Earnings lower this year. (A-3)

Timken Roller Bearing: Although auto industry is chief customer for roller bearings, growth is more evident in industrial fields: Railroads may become major customers in future. More conservative dividend seen. (A-3)

Young (L. A. Spring & Wire): Diversification in roadbuilding and construction machinery offers growth potentials as emphasis on automotive products slackens. Earnings for latest fiscal year estimated off sharply. (C-3)

RATINGS: (A)—Best Grade.
(B)—Good Grade.
(C)—Speculative.
(D)—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

All indications point to more significant development of replacement sales because of the great number of automobiles in the two-to-six-year age bracket equipped with automatic transmissions, dual mufflers and 12-volt batteries, all requiring replacement of expensive items. Because increasing numbers of workers use motor cars to reach places of employment, usually at some distance from cities and towns, the number of cars needing replacement services is growing much more rapidly than in previous years.

Motorists have asked why more durable parts are not used as original equipment—as in the case of mufflers, which are especially vulnerable to wear in passenger cars used frequently for short trips. Better mufflers can be made and are made in cases where motorists are prepared to pay additional manufacturing costs. Major car makers endeavoring to produce an attractively styled automobile at the lowest possible cost demand that all components be produced at as economical a figure as possible. Parts makers must concentrate on engineering and manufacturing techniques which will contribute to the most satisfactory quotation that may be submitted to car makers on a competitive basis. The saving of a few cents on a part selling for a dollar or more may mean the difference between winning and losing a contract running into millions. The difficult year experienced in 1958 compelled many parts makers to adopt economies in self-defense which should soon contribute to more satisfactory margins.

Another important factor deserving consideration in surveying prospects for accessory makers has been the tendency of motor car buyers to purchase one of the "low-priced three" equipped with numerous extras, including radios, heaters, automatic transmissions, power steering, brakes, etc., rather than to take a higher-priced model having fewer so-called luxuries. Thus, the potential market for replacement of extra items actually has been enlarged by this comparatively recent development of the public's willingness to be satisfied with cars that a generation ago would have been considered beneath the family's dignity.

The probability that replacement sales are destined to become increasingly important and should afford wider profit margins has induced numerous supply companies to undertake national distribution through channels heretofore unexploited. Some companies, for example, have usually provided spare parts to the motor car manufacturers, who in turn distributed the items through established dealers operating garages in conjunction with salesrooms. Parts distributed in this manner yield the accessory maker a relatively insignificant fraction of the price charged by the dealer. Most of the profit accrues to the car manufacturer and the service organization.

Outlook for Batteries

Leading battery manufacturers are primary beneficiaries of replacement sales, inasmuch as the average passenger car battery rarely lasts for more than three years and the life of a car under normal conditions may approximate five to 10 years unless mishandled. Leaders in the battery business are **Electric Storage Battery** and **Gould-National**. ESB is the largest domestic supplier of storage batteries, marketing products under the Exide and Willard labels and supplying private brand items. It is estimated that about half of total volume stems from replacement business. Absorption of the Ray-O-Vac business is expected to mean enlargement of volume in the flashlight and radio field, where long-term growth is envisioned. More satisfactory margins are anticipated in retail distribution of small flashlight batteries. Almost three-fourths of batteries marketed by Gould-National can be accounted for by replacement sales. Distribution is through oil company stations, tire chain stores, etc.

Miscellaneous Equipment

In addition to tires, which are discussed elsewhere in this series, vulnerable auto parts include mufflers, piston rings and several types of bushings and bearings, brake linings, etc. **Arvin Industries** is a major producer of mufflers for all principal passenger car makers. Replacement items are distributed through manufacturers' service systems rather than direct to garages, but the company may alter this policy in the interest of wider distribution. Dependence on the automotive industry has been minimized by development of substantial volume in radios, "hi fi" equipment, electrical appliances, metal furniture and housewares such as ironing boards, of which it is a major manufacturer.

Bendix Aviation and **Borg-Warner** are other producers of automotive components that have sought stabilizing factors in other lines of endeavor. Bendix, as an example, has gained a significant foothold in supplying essential parts for aircraft manufacturers. Borg-Warner long has been one of the leading manufacturers of appliances for the household, such as refrigerators, kitchen stoves, etc., and more recently has stressed air-conditioning through the acquisition of York. Oil well supplies have been added through addition of Byron-Jackson. Transmissions, clutches and carburetors constitute the bulk of automotive parts. Problems arising from consolidation of non-automotive manufacturing activities contributed to the company's disappointing showing late in 1957 and through the first six months of 1958.

Principal manufacturers of bearings, bushings, valves and essential engine parts that need replacement from time to time include **Thompson Products, Timken Roller Bearing, Clevite** and numerous smaller concerns. In the case of Thompson Products, aircraft parts have become more important in sales than automotive accessories. Acquisition of Ramo-Wooldridge promises to increase the proportion of aircraft work, especially in electronics. Timken is the world's leader in manufacture of tapered roller bearings. Keen competition in bushings and roller bearings for the automotive and farm machinery industries has restricted margins for Clevite, **Federal-Mogul-Bower** and other manufacturers.

"Big Three" Integrating

In the minds of investors, probably the most disturbing factors confronting auto parts makers is the ever present threat of more intensive integration on the part of the three principal car manufacturers. In the search for utmost economy in production to gain advantages at the retail level, motor car makers have undertaken integration in many directions. General Motors, for example, has set up captive plants for *(Please turn to page 708)*

FOR PROFIT AND INCOME

What's Good?

Regardless of long-term doubts about the dollar, cash in the bank does not look like a poor holding to us. Probably its value for buying goods and services will be about as much six months hence as now. Its value will surely continue to fluctuate less sharply than the prices of common stocks. At least on a short-term view, buying stocks at the present market level could easily be much more risky than holding cash. With interest rates up and rising, cash is worth more for buying income stocks than in the recent past, and could gain further. Put the other way around, need for hurry in accumulating income stocks is not apparent; and selective buyers can shop around for price concessions. Growth stocks, cyclical stocks, virtually all stocks that are worth a hoot have had large advances. Some depreciation in them — namely a corrective reaction worth waiting for — seems overdue.

Odd-Lot Index

The idea that small investors and speculators — those who buy and sell stocks in odd lots — are generally wrong on balance in their market timing is not fully supported by the facts, and was generally more right in the past than in more recent years. At a high market level, the odd-lotters have been sellers on balance in recent weeks. At lower market levels they were buyers on balance from early February, with the Dow industrial average around 440, most of the time until recently, when the average approached its 1956-1957 highs around 520. Time will tell whether the indicated shift toward caution pays off; but in principle, buying low and selling high is smart rather than dumb.

What Goes Up

What goes up usually comes down, at least in some degree, sooner or later. It is true in the market as in physics. Here are some stocks that are down appreciably to considerably, in percentage, from their best 1958 levels: Atlantic Refining, Alcoa, American Smelting, Hertz, Kennecott Copper, Douglas Aircraft, Owens-Corning, Pfizer, Phelps Dodge, Smith, Kline & French;

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
American Home Products	6 mos. June 30	$2.74	$2.49
Pennsalt Chemicals	Quar. June 30	.82	.72
American Natural Gas	12 mos. June 30	4.08	3.88
American Tobacco	Quar. June 30	2.13	1.90
International Silver	Quar. June 30	.38	.15
Food Fair Stores, Inc.	52 weeks Apr. 26	2.85	2.54
General Cigar Co.	Quar. June 30	1.83	1.51
Long Island Lighting	Quar. June 30	.39	.33
Borden Co.	Quar. June 30	1.45	1.38
Holland Furnace	Quar. June 30	.20	.13

Texas Instruments, U. S. Borax and U. S. Gypsum.

Florida Power Split

The previously rumored Florida Power Corp. stock split, referred to here recently, is past news now and proved to be 3-for-1. What about dividends? The rumor is that they will be equivalent to a boost in the present rate from \$2 to \$2.40. That seems quite possible, in view of indicated earning power. The stock ran up to a new high of 79¾ and is currently at 76½. The "cream" is out of it. We repeat that it is relatively unattractive on profit-dividend potentials of at least the next two or so years.

A. T. & T. Split?

The Street has recently been buzzing with conjecture that American Telephone, now at 182½, may be split, perhaps within six to twelve months; and put on a dividend perhaps equal to \$10 on the present shares, against \$9 paid as fixed policy since 1922. This would indeed be an historic split. There are plausible arguments for and against it. Our notion is that a completely rigid dividend, contrasting with the rewards given stockholders by other growing utilities, is outmoded in this investment age; and hence that the rumor might have substance. On the equivalent of a \$10 dividend, the present stock should have a normal investment worth in the vicinity of 200, varying with money rates; and with the door open to some possible long-pull dividend growth given altered policy, it could go above 200 at times.

Other Candidates

Based on company potentials in a full cycle of business recovery, there may well be stock splits and higher dividends ahead, although the timing is unpredictable, in the following instances: American Chicle, Corning Glass, Goodyear, Kroger, National Lead, Parke Davis, Sherwin-Williams and Warner-Lambert.

Retail Stocks

Moving gradually upward in recent months, total consumer disposable income and spending can be expected to rise further to new peaks in the final quarter — the period in which a decisive portion of annual profits are made in most branches of retail trade. Anticipating better sales and earnings, retail stocks have improved recently in relative market position. At one extreme are the growth-stock isues in the grocery chain-store field. They have risen sharply and are high-priced on earnings and dividends for some time to come. At the other are the variety-store and drug-store stocks, offering above-average yields with restricted potentials for further appreciation. In between, and inviting consideration, are selected department store and general merchandise chain-store stocks. Two of the best are Federated Department Stores and J. C. Penney.

Federated Department Stores

In most instances, department-store companies have yet to better the lush earnings experienced in the early postwar years. Federated, with 18 large or sizable stores and 24 branches, is an exception. Earnings set a new record of \$3.25 a share in the fiscal year ended last January 31, and have more than doubled since 1946. A fair number of boosts have put dividends to \$1.80, from \$0.39 (adjusted to present capitalization) in the initial postwar year. First-half sales and profit were the best in the company's history. Current-year net could approach the vicinity of \$3.50 a share. In the existing market environment, the stock is priced "within reason" at 43, yielding about 4.2%.

Penney

Operating in every state, this company is unique. Its some 1,700 junior department stores specialize in popular-priced apparel, dry goods and other soft goods almost entirely. The prospect is not dynamic, but earnings have trended moderately upward over the years to a peak \$6 a share in 1957. That should be approximated, if not bettered a bit, this year. Dividends are at a \$4.25 total. At 95½ in a 1955-1958 range of 106¼-75, the stock yields close to 4.5% and has above-average investment merit.

Oils

Things are never just right for any great time in the oil industry. There was some moderate recent improvement in the overall supply-demand situation, but the nearby outlook is now worrisome again. The inventory of heating oils is below a year ago and output will have to be increased to meet autumn-winter demands. But the refiners cannot produce distillates without turning out roughly twice as much gasoline, which is higher priced and generally more profitable per gallon. However, present gasoline stocks are on the high side; and figure to become more so between now and next spring. Therefore, gasoline price cutting has started again in some areas, will spread and may go deeper. On a medium term view, this is not a good time to buy oil stocks. They should react.

Pension Funds

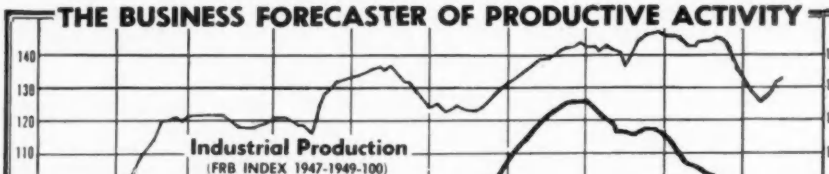
Corporate pension funds are an increasingly important source of demand for common stocks. But the buying is, of course, along conservative lines as regards stock selections. It is done largely on what amounts to a dollar-averaging basis, and is concentrated heavily in safe-income equities. According to the SEC, corporate pension funds, apart from those handled by insurance companies, had a book value of \$19.3 billion at the end of 1957, an in-

(Please turn to page 710)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Motorola, Inc.	Quar. June 30	\$ .41	\$ .66
Robertshaw-Fulton Controls	6 mos. June 30	.86	1.55
American Viscose	6 mos. June 30	.08	1.21
Babcock & Wilcox Co.	6 mos. June 30	.80	1.40
Champion Paper & Fibre	Quar. June 30	.34	.72
Certain-Teed Products	6 mos. June 30	.12	.37
Aeroquip Corp.	9 mos. June 30	.43	1.75
Kennecott Copper	6 mos. June 30	2.12	4.56
Amer. Metal Products	6 mos. June 30	.81	2.22
Fairbanks, Morse & Co.	6 mos. June 30	.02	1.35

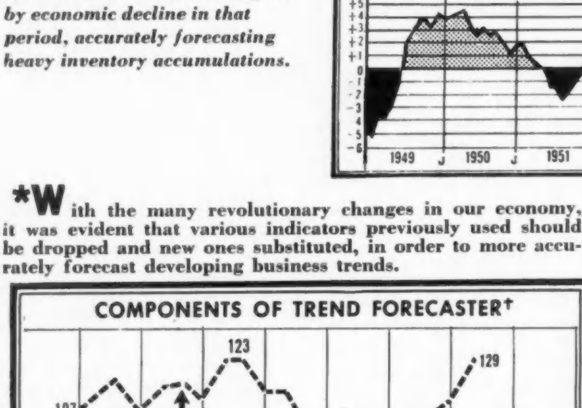
the Business



Business Trend Forecaster *

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

As of the latest months for which reliable data are available, the uptrend continues in a majority of the series entering into the **Trend Forecaster**.

New incorporations rose sharply in July (as they had in the preceding July, suggesting an emerging change in the seasonal of the indicator). Durable goods orders rose further in July, and stock prices continued the uptrend that started late in 1957. Average hours worked and housing starts advanced in July, and raw commodity prices extended their advance in July and August. Viewed in the context of the longer-term trend, six of the eight indicators appear to be in an advancing phase in the third quarter.

The **Relative Strength Measurement,** after climbing sharply in the second quarter, flattened out early in the third quarter, in the range between plus two and plus three. While this indicator has thus far failed to cross the plus three area indicative of rapidly advancing business, it still remains in a favorable zone pointing to further recovery in coming months.

Analyst

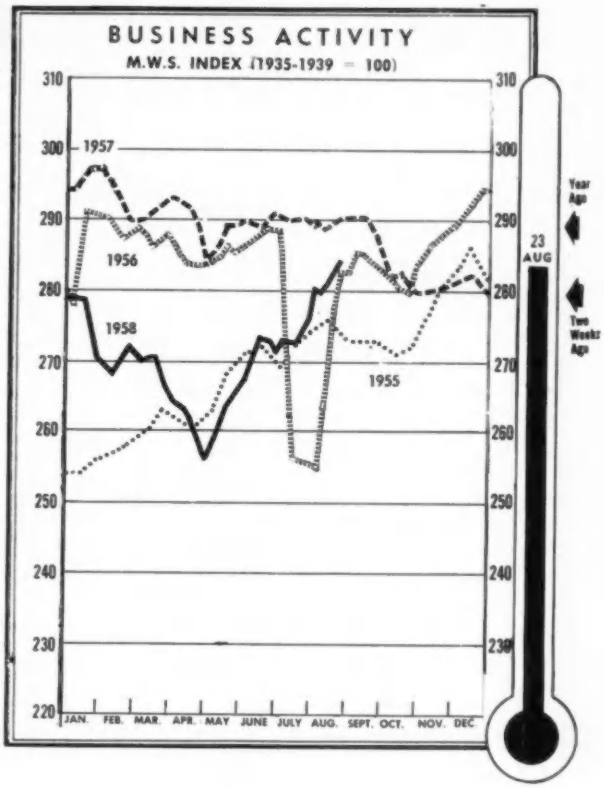
CONCLUSIONS IN BRIEF

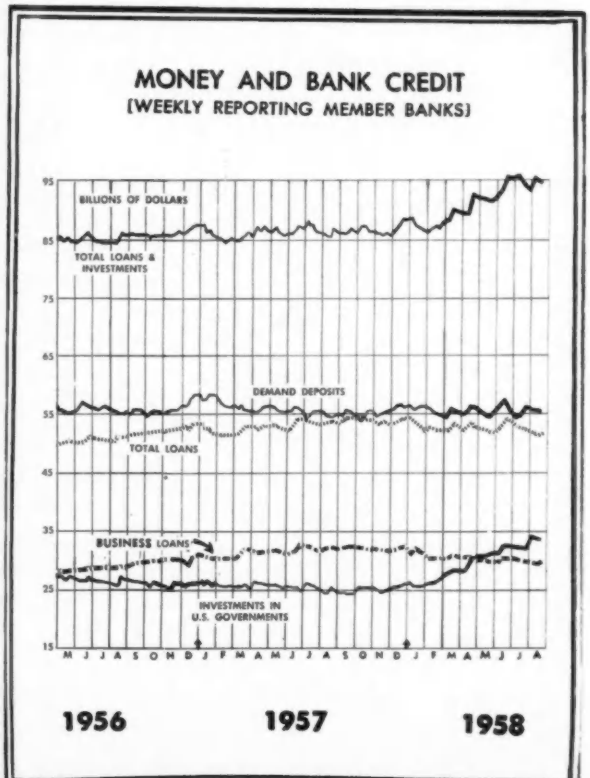
PRODUCTION—still in an uptrend, but further advance likely to be more moderate, as impetus from cessation of inventory liquidation is now nearing an end. Durables lines have thus far been fastest gainers; look for slower rate of gain here, further rise in soft goods.

TRADE—still holding at advanced levels, with softgoods doing considerably better than hard goods. Apparel and textile trend clearly strengthened; department store sales sharply improved. Trend to year-end: some recovery in durables sales, but biggest gains in soft goods.

MONEY AND CREDIT—short term money rates have risen sharply in recent weeks, and banks' free reserves have been falling. Long term rates, which never did decline much during recession, now firming. Outlook: moderately tighter credit, moderately higher borrowing costs, over next six months.

COMMODITIES—trend still mixed; world-commodity oversupply is stalling any big inflationary, speculative advance. But industrial prices still holding as steel, aluminum increases work their way through price structure. On the other hand, steel, scrap and copper decline after speculative advance.





ON the basis of the trend in the industrial production index published by the Federal Reserve — perhaps the most watched of all government statistics on business conditions — many observers have concluded that the trough of the 1957-1958 recession was reached in April, and that since May the general trend has been upward. While there is much to support this argument, it is worth noting that it is still no more than a hypothesis; it will take much statistical soul-searching before a conclusion about the exact location of the trough will be reached.

The index of industrial production is, of course, open to revision; monthly, annually, and even after a decade; there is no assurance that the trough will stay put where it is. Moreover, the industrial production index, useful as it most certainly is, is one among hundreds of reliable business indicators. It, therefore, is relevant to take a look at the behavior of some other respectable statistical series in this recession.

Take, for instance, retail trade. For the past four months, this key dimension of business has been moving sidewise after advancing 3% from its 1958 low.

Or take plant and equipment expenditures. Five quarters after their 1957 peak, they are still running about 22% off the peak — a bigger drop than in either of the two preceding recessions.

Or take unemployment. In July, the jobless still numbered well over 7% of the labor force, after seasonal adjustment. The point is not that something favorable did or did not occur to the business trend

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Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	July	133	131	145
Durable Goods Mfr.	1947-'9-100	July	141	139	162
Nondurable Goods Mfr.	1947-'9-100	July	130	129	131
Mining	1947-'9-100	July	114	112	128
RETAIL SALES*	$ Billions	July	16.6	16.6	16.8
Durable Goods	$ Billions	July	5.2	5.2	5.8
Nondurable Goods	$ Billions	July	11.4	11.4	11.0
Dep't Store Sales	1947-'9-100	July	140	133	138
MANUFACTURERS'					
New Orders—Total*	$ Billions	July	26.3	25.8	27.3
Durable Goods	$ Billions	July	12.4	12.3	13.0
Nondurable Goods	$ Billions	July	13.9	13.5	14.3
Shipments*	$ Billions	July	26.3	25.7	29.0
Durable Goods	$ Billions	July	12.4	12.1	14.6
Nondurable Goods	$ Billions	July	13.9	13.7	14.5
BUSINESS INVENTORIES, END MO.*	$ Billions	June	86.5	86.9	90.7
Manufacturers'	$ Billions	June	50.3	50.9	53.9
Wholesalers'	$ Billions	June	12.1	12.1	12.7
Retailers'	$ Billions	June	24.0	23.9	24.1
Dept. Store Stocks	1947-'9-100	June	148	144	153
CONSTRUCTION TOTAL	$ Billions	July	4.6	4.4	4.5
Private	$ Billions	July	3.1	3.0	3.1
Residential	$ Billions	July	1.6	1.5	1.6
All Other	$ Billions	July	1.5	1.5	1.5
Housing Starts*—a	Thousands	July	1160	1090	1015
Contract Awards, Residential—b	$ Millions	July	1557	1364	1287
All Other—b	$ Millions	July	2051	2455	1614
EMPLOYMENT					
Total Civilian	Millions	July	65.2	65.0	67.2
Non-Farm	Millions	July	50.2	50.4	52.2
Government	Millions	July	7.7	7.9	7.4
Trade	Millions	July	11.0	11.0	11.2
Factory	Millions	July	11.4	11.4	12.8
Hours Worked	Hours	July	39.2	39.2	39.8
Hourly Earnings	Dollars	July	2.13	2.12	2.07
Weekly Earnings	Dollars	July	83.50	83.10	82.39
PERSONAL INCOME*	$ Billions	July	359	352	352
Wages & Salaries	$ Billions	July	242	236	241
Proprietors' Incomes	$ Billions	July	56	56	56
Interest & Dividends	$ Billions	July	32	32	32
Transfer Payments	$ Billions	July	27	26	22
Farm Income	$ Billions	July	17	17	16
CONSUMER PRICES	1947-'9-100	July	123.9	123.7	120.8
Food	1947-'9-100	July	121.7	121.6	117.4
Clothing	1947-'9-100	July	106.7	106.7	106.5
Housing	1947-'9-100	July	127.7	127.8	125.5
MONEY & CREDIT					
All Demand Deposits*	$ Billions	July	109.6	107.4	108.0
Bank Debits*—g	$ Billions	July	84.0	81.6	84.8
Business Loans Outstanding—c	$ Billions	July	29.5	30.4	31.7
Instalment Credit Extended*	$ Billions	June	3.3	3.3	3.5
Instalment Credit Repaid*	$ Billions	June	3.4	3.4	3.3
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	July	2.9	10.8	3.1
Budget Expenditures	$ Billions	July	6.6	6.6	6.3
Defense Expenditures	$ Billions	July	3.7	4.2	3.6
Surplus (Def) cum from 7/1	$ Billions	July	(3.7)	(2.8)	(3.3)

PRESENT POSITION AND OUTLOOK

in May; it is that recovery still has a long way to go before it reaches the strength and breadth of a general boom. This is a cautionary note; a return to the kind of inflationary euphoria of 1955 is still far from inevitable.

* * *

THE DEFICIT—with fiscal 1959 now about two months old, and with Congress adjourned, it is a little easier to tote up what can be expected in the way of a federal government deficit. And the best estimate now possible still points to an excess of spending over receipts in the neighborhood of about $12 billion.

By all indications, receipts in fiscal 1959 are likely to fall a whopping $3 billion below receipts in fiscal 1958, mainly because of a substantial drop in corporate profits. The estimate for personal income in 1958—which will mainly affect receipts in fiscal 1959 — would now appear to be well above the level of 1957, but much of the increase is in the form of social security payments and unemployment benefits, which are largely nontaxable; hence the personal tax will provide little or no offset to the decline in the corporate tax yield.

At the same time, expenditures are evidently going up as much as $6 billion, to about $78 billion. A little of this increase reflects rising defense outlays, but most of it is in miscellaneous spending; perhaps $2 billion more for agricultural programs, a couple of billion for housing programs, pay raises for civilian government employees, etc. The $12 billion prospective deficit is, of course, larger than anything experienced since World War II.

* * *

THE HOUSING UPTREND — it's still going up, as of end of summer. By July, seasonally adjusted starts had advanced to an annual rate of 1.16 million, the highest since late 1955. On the basis of the trend of VA and FHA financing requests, it may climb still higher over the next few months. However, there is no indication yet that it will go through the roof — up close to 1.5 million — as it did in late 1954, when returning Korean veterans were supplying the market with a continuous flow of urgent demand for new homes. In the past

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 II Quarter	1958 I Quarter	1957 IV Quarter	1957 II Quarter
GROSS NATIONAL PRODUCT	429.0	425.8	438.9	441.2
Personal Consumption	288.3	286.2	287.2	282.5
Private Domestic Invest.	49.2	49.6	61.5	67.0
Net Foreign Investment	0.5	0.5	1.9	4.2
Government Purchases	90.9	89.5	88.3	87.5
Federal	51.9	50.9	50.5	51.5
State & Local	39.1	38.6	37.8	36.0
PERSONAL INCOME	349.8	347.3	349.7	348.4
Tax & Nontax Payments	42.3	42.3	43.0	42.7
Disposable Income	307.5	305.0	306.8	305.7
Consumption Expenditures	288.3	286.2	287.2	282.5
Personal Saving—d	19.2	18.8	19.6	7.6
CORPORATE PRE-TAX PROFITS	—	31.7	39.9	43.5
Corporate Taxes	—	16.1	19.9	21.7
Corporate Net Profit	—	15.5	20.0	21.8
Dividend Payments	—	12.5	12.0	12.6
Retained Earnings	—	3.0	8.0	9.2
PLANT & EQUIPMENT OUTLAYS	30.3	32.4	36.2	37.0

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Aug. 23	284.2	281.1	290.0
MWS Index—per capita*	1935-'9-100	Aug. 23	212.2	209.8	220.4
Steel Production	% of Capacity	Aug. 30	63.6	62.6	82.2
Auto and Truck Production	Thousands	Aug. 30	28	38	139
Paperboard Production	Thousand Tons	Aug. 23	294	294	289
Paperboard New Orders	Thousand Tons	Aug. 23	275	262	263
Electric Power Output*	1947-'49-100	Aug. 23	233.9	238.9	235.1
Freight Carloadings	Thousand Cars	Aug. 23	634	626	759
Engineering Constr. Awards	$ Millions	Aug. 28	397.8	373.0	436.5
Department Store Sales	1947-'9-100	Aug. 23	134	124	130
Demand Deposits—c	$ Billions	Aug. 20	55.3	55.6	54.5
Business Failures	Number	Aug. 20	272	262	260

PRESENT POSITION AND OUTLOOK

few months, in fact, the rate of financing requests has appeared to reach a peak and then turn down from a level well below the top reached three years ago. Furthermore, current credit tightening could slow demand in this field.

* * *

DEPARTMENT STORES—are painting the brightest part of the retail picture these days. In July, the sales index for nationwide sales of the big stores climbed to its best level since the fall of 1957, and in August the preliminary figures suggest an approximation of the all time record (after seasonal adjustment, of course; the big dollar peak in store sales is always December). In line with rising sales, the stores are evidently in process of reversing their inventory trend; in the past few months, stocks have definitely been on the rise, and the outlook for Christmas trade is now sufficiently favorable to lead to some advance buying.

With food sales now only stable (thanks to the flattening out of food prices), and with durables markets still weak, the special concentration of department stores in non-food soft goods puts them in an aggressive marketing position to capture some of the current increases in consumer incomes.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958 High	1958 Range Low	1958 Aug. 22	1958 Aug. 29
300 Combined Average	360.7	283.9	359.1	360.7H
4 Agricultural Implements	305.6	196.5	305.6	300.1
3 Air Cond. ('53 Cl.—100)	107.6	87.8	106.8	106.8
9 Aircraft ('27 Cl.—100)	1208.1	982.2	1159.0	1188.5
7 Airlines ('27 Cl.—100)	869.5	638.8	834.0	822.2
4 Aluminum ('53 Cl.—100)	354.8	253.4	339.6	347.2
6 Amusements	170.2	125.0	170.2	170.2
8 Automobile Accessories	361.6	298.9	358.7	361.6H
6 Automobiles	58.7	40.8	58.7	58.3
4 Baking ('26 Cl.—100)	35.2	28.5	34.6	35.2
4 Business Machines	1079.6	898.2	1079.6	1071.0
6 Chemicals	622.7	509.5	612.4	617.5
5 Coal Mining	24.3	18.4	24.3	24.0
4 Communications	124.3	85.7	119.3	124.3H
9 Construction	134.7	107.5	134.7	134.7
7 Containers	940.8	707.3	933.9	940.8H
7 Copper Mining	239.5	184.6	230.3	232.2
2 Dairy Products	137.4	115.6	134.0	134.0
6 Department Stores	102.1	78.9	99.1	102.1H
5 Drugs-Eth. ('53 Cl.—100)	317.7	217.2	303.7	317.7H
6 Elec. Eqp. ('53 Cl.—100)	230.0	195.8	226.2	226.2
2 Finance Companies	724.9	568.8	719.3	719.3
6 Food Brands	350.7	255.5	340.7	348.2
3 Food Stores	246.0	182.2	246.0	244.1

(Nov. 14, 1936 Cl.—100)	High	Low	Aug. 22	Aug. 29
100 High Priced Stocks	234.5	189.7	233.6	233.8
100 Low Priced Stocks	446.3	334.7	442.9	446.3H
5 Gold Mining	772.5	530.5	715.9	726.2
4 Investment Trusts	174.6	144.4	174.6	173.3
3 Liquor ('27 Cl.—100)	1244.7	913.4	1244.7	1226.8
8 Machinery	416.0	343.8	409.1	416.0H
3 Mail Order	216.3	143.3	216.3	213.6
4 Meat Packing	176.6	123.6	175.5	176.6H
5 Metal Fabr. ('53 Cl.—100)	166.5	138.1	165.2	166.5
9 Metals, Miscellaneous	339.4	278.3	326.2	323.6
4 Paper	1043.8	841.8	1043.8	1043.8
22 Petroleum	822.5	629.7	803.3	790.4
21 Public Utilities	307.6	258.9	297.3	297.3
7 Railroad Equipment	80.0	59.2	80.0	78.4
20 Railroads	59.2	43.0	58.8	58.8
3 Soft Drinks	550.5	445.6	541.8	537.4
12 Steel & Iron	330.8	249.3	326.0	330.8H
4 Sugar	134.4	102.8	134.4	133.4
2 Sulphur	785.5	543.4	774.7	747.8
10 TV & Radio ('27 Cl.—100)	41.3	28.8	39.2	41.3H
5 Textiles	132.4	106.9	130.5	131.5
3 Tires & Rubber	177.9	142.3	170.2	177.9H
5 Tobacco	149.2	110.9	147.1	147.1
2 Variety Stores	300.7	239.3	291.9	296.3
17 Unclassif'd ('49 Cl.—100)	190.7	145.4	188.0	190.7H

H—New High for 1958.

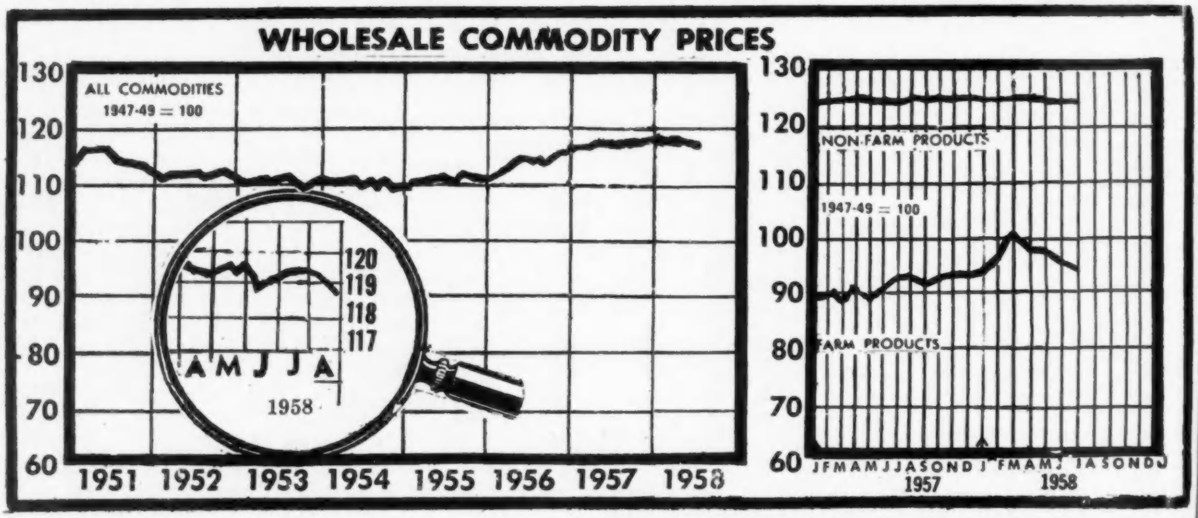
Trend of Commodities

SPOT MARKETS—Prices of sensitive commodities were somewhat lower in the two weeks ending August 29, the BLS index of 22 such commodities falling 0.3% during the period. Raw foodstuffs continued to drop and raw industrial materials dropped slightly on balance. In the latter category, burlap, cooper scrap and wool tops declined while lead scrap, rubber and tin moved higher.

Among the rank and file of commodities represented in the BLS comprehensive weekly price index, some further easing was witnessed. Farm products, foods and meats all were lower while the index of all other commodities held unchanged. The over-all index has now been seeing-sawing back and forth within a narrow range for more than a year and no signs of a break-out have yet emerged.

FUTURES MARKETS— Futures were a mixed lot in the two weeks ending August 29. Changes were small in most cases with many commodities plotting no discernable trend.

Wheat futures were somewhat higher during the period with the December option adding 2½ cents. Increased tension in the Far East and better export demand were factors in the advance. The USDA estimates total supplies this season at a record 2,312 million bushels and disappearance at 1,010 million bushels, which would leave a carryover on June 30, 1959 of 1,302 million bushels, largest in history. However, 854 million bushels of wheat were either under Government loan or owned by the CCC on July 1, 1958. At current low prices, a sizeable part of the 1958 crop will go into the loan, and this would provide potent price support.



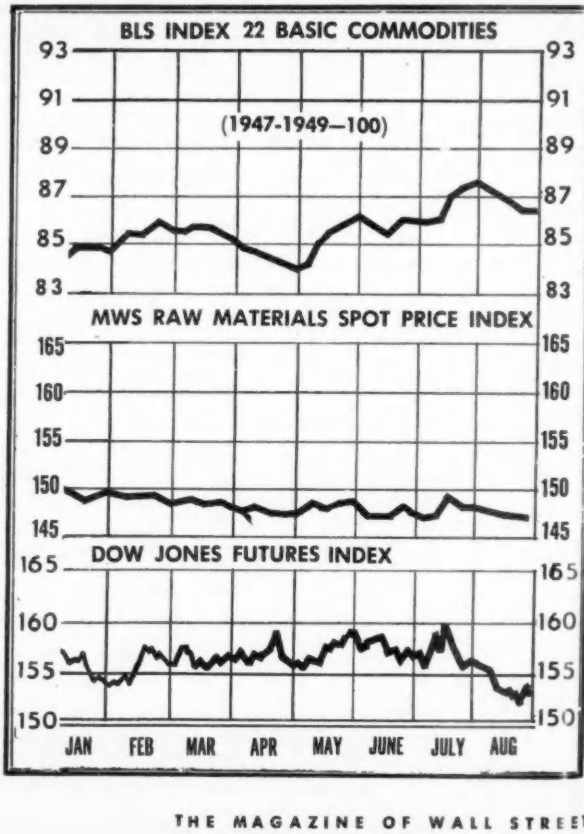
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Aug. 26	118.7	119.0	118.4	60.2
Farm Products	Aug. 26	92.5	93.1	93.0	51.0
Non-Farm Products	Aug. 26	125.9	126.0	126.0	67.0
22 Sensitive Commodities	Aug. 29	86.5	86.8	88.4	53.0
9 Foods	Aug. 29	87.0	87.7	84.5	46.5
13 Raw Ind'l. Materials	Aug. 29	85.9	86.0	91.0	58.3
5 Metals	Aug. 29	90.6	89.7	99.3	54.6
4 Textiles	Aug. 29	78.0	79.1	82.4	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1958	1957	1953	1951	1945	1941
High of Year	150.2	166.3	162.2	215.4	98.9	85.7
Low of Year	147.0	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	159.0	163.4	166.5	214.5	106.4	84.6
Low of Year	147.0	153.8	166.8	189.4	105.9	84.1
Close of Year		156.5	147.9	176.4	96.7	74.3



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

McKesson & Robbins

"I have been a subscriber to your valued publication for a good many years and do not inquire often on securities. However, I would appreciate receiving recent earnings data and financial position of McKesson & Robbins."

F. E., Stamford, Conn.

McKesson & Robbins principal activities are the national distributing of drugs and drug store products, wines and liquors, and industrial chemicals.

For the fiscal year ended March 31, 1958, McKesson & Robbins reported sales of $593,854,359 and net income of $9,877,258, equivalent to $5.28 per share. These earnings are second only to the record net of $10,475,449 in the previous year, which was equivalent to $5.63 per share.

The lower earnings were attributed to a decline in sales during the last quarter and to an increase in reserves considered desirable due to uncertain current economic conditions.

The balance sheet showed current assets of $171,199,115 against current liabilities of $64,454,335 indicating net current assets of $106,744,780, an increase of $1,631,266 over March 31, 1957.

Improved operating practices and the modernization of warehouse facilities are making it possible to handle a larger volume of business with less manpower and the increase in overall efficiency will continue to contribute to the company's future earning power.

The vast sums for research being spent by pharmaceutical manufacturers which are introducing new therapeutic agents at a more rapid pace than ever before and improved methods of medical care and the long term growth in population enhances the outlook for the company.

The company is observing its 125th anniversary this year.

Current quarterly dividend is 70 cents per share.

Earnings for the 3 months to June 30, 1958 were $1.03 per share compared with $1.11 per share in the corresponding 1957 quarter.

Eagle-Picher Company

"As metal stocks have been under market pressure this year, I would be interested in receiving late data on operations of Eagle-Picher Co."

R. T., Springfield, Mass.

Eagle-Picher Co. is a producer of lead, zinc and allied products. The automobile companies are important customers for many of the company's products. Manufacturing operations have been the major source of earnings in recent years and this has been due to acquisitions.

Net profit of the Eagle-Picher Co. for the 6 months ended May 31, 1958 was $918,684, or 91 cents per share, compared with $2,421,847, or $2.41 per share, for the same period of 1957.

Net sales for the first half of 1958 fiscal year were $46,651,151, compared with $62,317,357 for the first half of 1957, a decrease of approximately 25%.

At May 31, 1958, net current assets, including cash and U. S. Government obligations of $7,183,960, amounted to $27,026,809, compared with net current assets of $27,786,595 at November 30, 1957.

Shareholders' net worth at May 31, 1958 was $40,755,423, or $40.51 per share.

Sales in the first half of the current year were lower in all divisions. While they were off 25% in total, sales of the 5 manufacturing divisions declined approximately 20%. It is noteworthy that production and manufacturing costs were kept closely in line with volume. In fact, gross profit of the manufacturing divisions was about the same percentage-wise as during the first 6 months of 1957. Provision for depreciation, depletion and patent amortization amounted to $1,680,907 in the 1958 period, compared with $1,660,416 in the first half of 1957.

The Mining and Smelting division continued to show a loss due to unsatisfactory market prices for zinc and lead. Cost reductions have been, and will continue to be made in this division, and it is believed that legislation will be enacted which will be beneficial to it. According to the opinion of the company, all divisions have made a creditable showing under existing conditions.

This company states that business has experienced an "inventory recession" for some time. Inventory liquidation increased quite sharply in the first quarter of 1958, but the company expects the decline will be checked in the third quarter of 1958 and

(Please turn to page 712)

This high-grade concentrate, an oxide of uranium known as "yellow cake," is the end-product of Anaconda's uranium ore-processing plant at Bluewater, New Mexico.

A handful of URANIUM concentrate can make enough electricity to power your home for years

The material in these drums is "yellow cake." Uranium oxide concentrate is its technical name. It starts out as crude uranium ore at Anaconda's Bluewater, New Mexico, uranium mill. And it takes more than 100 tons of ore to make the yellow cake in just one drum.

After further processing, the material will be compressed into ceramic pellets about the size of a pencil eraser. Placed in the nuclear reactor of a power generating plant, each tiny pellet will produce enough energy to run a TV set for almost a year. In the Shippingport, Penna., plant of the Duquesne Light Company almost a *million* such pellets, weighing 12 tons, are in use—and a couple of dozen pellets will supply *all* the electricity used in an average home for three full years.

New uses for uranium are being discovered almost every day. Already *radioactive by-products alone* are saving industry an estimated half-billion dollars yearly.

To meet present and future demands for this wondrous element, Anaconda has developed millions of tons of uranium ore reserves in New Mexico. Through processes developed at Bluewater, New Mexico, Anaconda in a few short years has become the largest producer of uranium concentrate in the United States.

Leadership in the production of uranium concentrate is typical of Anaconda's versatility in contributing to America's growth and progress in many branches of industry.

The ANACONDA Company

The American Brass Company
Anaconda Wire & Cable Company
Andes Copper Mining Company
Chile Copper Company
Greene Cananea Copper Company
Anaconda Aluminum Company
Anaconda Sales Company
International Smelting and Refining Company

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Impact on the Dollar of $80 Billion Federal Spending Every Year - For 5 Years

(Continued from page 662)

the needs for cash. The prospect thus is for at least $400 billions of spending in five years. The deficits to be incurred will be sizable but their dimensions may be limited by a willingness to impose a tax increase. The next two years may produce $20 billion of deficit spending.

Congress, which so blithely passed spending bills all spring and summer, is now aware of the danger. The Treasury's request for an increase to $288 billion in the public debt limit threw cold water on the spending fever, though long after the damage had been done. In debate over the debt limit increase, Congressman Wilbur D. Mills, chairman of the tax-writing Ways and Means Committee, asked seriously:

> What will that type of Federal spending, and the deficits that it contemplates, do to the economy?
>
> It could let loose inflationary pressures that in turn will be emulated by business and labor. The result could be that during the course of the next several years we will see rises in prices such as we have not seen in peacetime.

Congressman John Byrnes of Wisconsin pleaded for "commonsense" to "correct the situation for the future." He warned that "this fiscal situation is beyond the point where it can be brushed off lightly. It is time, if this economy of ours, if our whole political system is to survive, that Members of Congress demonstrate the highest order of statesmanship in meeting these issues."

President Eisenhower was alarmed by the inflationary implications of Congress' panicky spending spree as early as last March. His recent vetoes of some of the more extreme spending proposals and his support to Congressional economy advocates kept the spending total from rising even further. No doubt he will use every means at his disposal to keep a checkrein on the Federal budget. He has already said that the budget will be the big issue in the November elections.

The stakes are high. In a $430 billion economy a 1% rise in prices costs $4.3 billion a year. The chart on p. 661 shows federal cash expenditures, including some $11 or $12 billion of trust fund outlays, and consumer prices since fiscal 1950. No price index is projected for fiscal '59 or '60 but the rising curve of spending leaves little doubt as to the direction of price change.

Spending Cutbacks Doubted

Economy measures by the President and the Congress are not likely to be very effective in reducing the inflationary impact of the budget. Some people are assuming that the President can duplicate his feat of 1954-55 when Federal budget expenditures were cut from $74.3 billion to $64.6 billion. The trouble is that that reduction was entirely in the area of national security spending. Nondefense spending kept right on rising.

Today, the tense international situation leaves little room for cutbacks in military spending. Indeed, criticisms that our war capabilities are lagging behind Russia's might — most recently expressed by former Army Chief of Staff General James M. Gavin — make it more likely that our defense outlays will rise over the years ahead. This is all the more probable in view of the tremendous expense of missile technology and space exploration, both of which seem to be in the direction of future growth in the military establishment.

Meanwhile, nondefenses spending continues and and even accelerates its rise. As a matter of fact the jump to a $79 or $80 billion spending level, from $72.8 billion in fiscal '58, is almost entirely due to expanded civilian benefit programs. Agriculture, small business, college students, depressed areas, home buyers — the list of dependents of the Federal Government seems to have no end. The American people may object to the level of their taxes but there is little recognition of the fact that spendthrift outlays are the cause.

Even where there is a prospect of some savings, as in agricultural outlays over the years ahead as a result of the new farm bill, the chances are that the money will simply be expended elsewhere. At the moment the new big spending surge seems most likely in foreign aid, despite Congress' demonstrated dislike for these programs, though some expanded outlays for Federal aid to education are also being strongly urged. The impact of all these programs will be to further weaken the dollar, create needs for still bigger appropriations and so on into a vicious circle with no end.

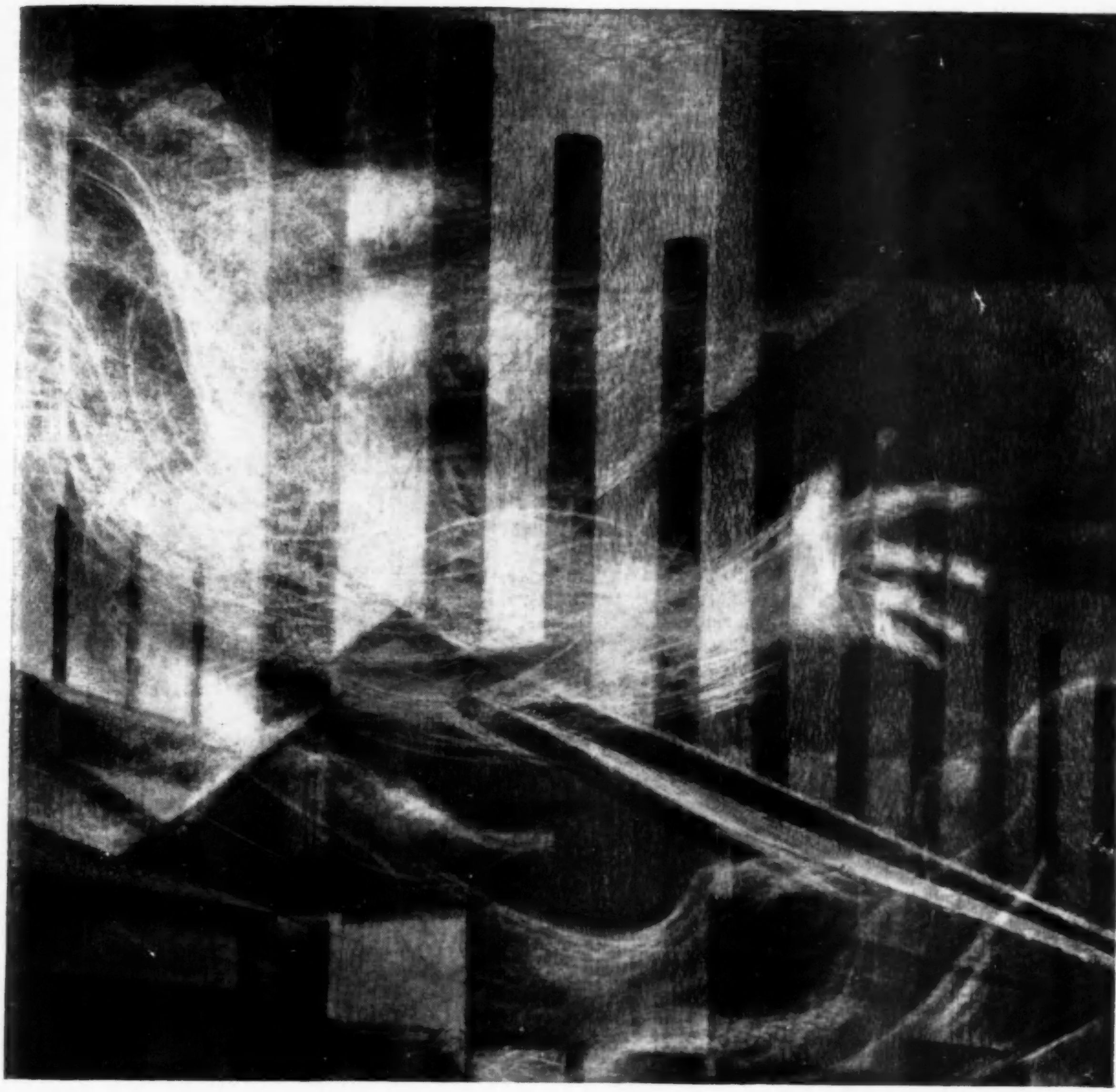
Foreign Aid and the Price of Gold

The most obvious signal of inflation — a rise in the $35 an ounce U.S. Treasury price of gold — was not given this year despite strong pressure from foreign nations. But foreigners have not come away from this struggle completely empty-handed. What has happened is that the Eisenhower Administration, in effect, has provided substitutes for an increased gold price in the form of subsidies, loans and gifts.

The main interest in a higher gold price has been that it would mean an automatic write-up in the value of all existing gold stocks, making foreign gold and dollar reserves larger, and in the value of current gold production, increasing the value of a significant dollar earner for such countries as South Africa, Canada and Australia.

The U.S. Treasury's opposition to a higher gold price has been based in part on the knowledge that Russia is a major gold producer and would benefit disproportionately. But the major objection is that gold stands at the base of the world's monetary structure. Inflate its price and the whole world financial structure would be correspondingly inflated. This is hardly the right medicine for a world which is already suffering seriously from the inflation disease.

The trouble is that the substitutes now proposed — increased contributions to the International Monetary Fund and World Bank and a new International Development Agency to make "soft" loans to nations otherwise unable to borrow — are no less inflationary. Foreigners will spend the funds made available by these means just as fast a



THE PHANTOM OF THE OPEN HEARTH

How would you like to build a $45 million open hearth furnace with only $10 million? You think it can't be done? At United States Steel, we *know* it can't be done. But under the existing tax laws on depreciation we're supposed to do it.

Because it cost only $10 million to build an open hearth furnace 25 years ago, that's all that the tax laws let us set up to replace it when it wears out—even though it costs $45 million to build one today. The additional $35 million has to come from profits. But profits we spend on replacement are only phantom profits. They can't be used for research, expansion, payments to our shareholders—the things profits *should* be used for. We have to use them just to stand still.

Last year, nearly ¼ of all the profits that United States Steel earned were phantom profits.

USS is a registered trademark

United States Steel

they would profits from a gold price mark-up.

It may well be that the substitutes also will bring closer the time when the price of gold will be increased. Informed sources suggest that the U.S. contribution to the International Monetary Fund will be increased by 50% or about $1.4 billion. In light of the current budget outlook it may be asked where the U.S. Treasury will get that kind of money. To be sure the initial payment would probably be in the form of non-interest-bearing Treasury notes which the IMF could cash in for gold or dollars as needed. But — with world demand for dollars showing no signs of abating and IMF loan resources already sharply reduced — it is only a question of time until we would have to raise the cash.

It is hard to avoid the suspicion that unless the budgetary situation improves far more than is likely, the time will come when both the Administration and the Congress look with favor on an increase in the dollar price of gold. A little arithmetic will show that an increase from $35 to $50 an ounce (the latter figure has frequently been discussed) would raise the value of the U.S. gold stock from about $21 to $30 billion for a "clear profit" of $9 billion.

The unpleasantness of raising taxes or cutting expenditures to save an equivalent $9 billion would be avoided. The cost — still more inflation for another generation and perhaps a 25 cent dollar — would not be immediate.

Inflation Pschology

The "real" causes of possible inflation ahead are serious enough, as the foregoing makes clear. But the most disquieting develoments of recent years have been those which show the development of an inflationary psychology in the United States. Inflations are made in men's minds before they show in the price indexes.

There is no question that the American people are not storming the stores, frantically trying to turn money into goods. But this is hardly a cause for congratulation or a proof that inflation is not a serious danger. The panic flight from money is the last stage of inflation. It has been experienced in France, Germany, Greece, China and a number of other countries where the currency dropped to the point of almost complete worthlessness. If we wait for that to happen here, it will be too late to do anything but come up with some substitute for the dollar at a ratio of perhaps one to one hundred thousand.

We have reason for concern, however, in the way people generally have taken a more questioning attitude towards U.S. Savings bonds and bank deposits. No one who talks to his neighbors can fail to be impressed with the impact inflation has had on the willingness to put money into bonds or banks. And people who do so know that their capital is likely to depreciate. They do it under protest, often for lack of alternatives. The rapid growth of mutual investment funds — often sold on the basis that they provide protection against inflation — is a testimonial to the desire of people for inflation hedges.

More sophisticated investors also are turning away from bonds. Marketable U.S. Treasury and high-grade corporate bonds, once regarded as safe investments for conservative people, are now looked on as possible candidates for a "quick turn" — to be bought if business shows signs of recession and an easy money policy by the Federal Reserve is expected. The plain fact is that bonds are now regarded as short-term investments — as speculations. No one wants to hold bonds for the long pull when the fixed amount of dollars in which they will be repaid are constantly wasting in value.

This is alarming and not only because we need loan capital to meet our needs for new factories and homes and public improvements of all kinds. Sensitivity to inflation itself makes inflation more likely. One need only look at the French economy where the seemingly endless depreciation of the franc has led to innumerable arrangements to circumvent inflation, many of which speed the inflation process up. The search for infilation hedges can only be successful when the mass of the people are unaware of danger. When everyone is looking for inflation hedges the only result is that the prices of the so-called inflation hedges are sent spiralling up along with everything else. Nobody gets any real protection.

When everyone climbs on the inflation bandwagon, the ultimate crash and deflation is only a matter of time. This is why price rises of "only 2% or 3% a year" cannot be permitted. People attempt to anticipate them and in so doing speed up the advance to 4% or 6% and then to 8% or 12% and so on. At some point the bubble breaks and decades are spent picking up the pieces.

This is the inflation danger we face. It is far more real than any cursory survey of the business outlook can suggest. The American people are becoming uneasy. The drift away from the dollar is still only a drift but it could become a stampede. The Federal Reserve authorities are conscious of the danger and can be counted on to do their utmost to keep the dollar strong. But the basic problem is the budgetary problem. Congress and the President have the future of the dollar and the American people in their hands. It will take a concerted effort but it is easier to keep confidence in money than it is to restore it once it has been lost.

END

Can Steel Industry Maintain Its Pace?

(Continued from page 681)

shipped into oil producing areas indicate a sharp inventory reduction since the end of 1957. An upturn in oil drilling would benefit Youngstown Sheet & Tube, U.S. Steel, Republic, Armco, and Jones & Laughlin. Among the secondary companies, Lone Star Steel has a wide interest in oil country business. Further Mideast troubles could have the effect of stepping up the demand for oil country goods.

In this connection, the natural gas industry is reported to have had pipeline construction applications pending before the Federal Power Commission, as of the first of January, involving 2.3 million tons of steel in future, if approved. In the year 1957, the Federal Power Commission authorized pipeline construction requiring only 670,000 tons of steel.

Another contributing factor to the increase in steel demand is the farmer. This year's crops are enabling him to buy more tools, handling equipment, fencing and wire products and this prosperity shows no signs of tapering off.

Shipbuilding is another bright spot in the steel outlook. The replacement of worn and obsolete civilian vessels is proceeding at an increasingly rapid pace. Bethlehem Steel, of course, is the largest domestic builder of ships. Bethlehem operates twelve yards and its shipbuilding and repair work made up 12.7 per cent of its orders in 1957.

As mentioned before, the largest buyer of finished steel in past years has been the automobile industry. This industry is so important to the economy in general, and to steelmakers in particular, that this recent decline in general business has been called an "Automobile Recession". At this writing, orders from the auto industry and parts suppliers, while coming in for the 1959 models, are slow and hesitant. Parts suppliers have been badly hurt by the poor 1958 car year and are reluctant to replace inventories in the present situation.

The problem for the auto industry is twofold. First, and most important, is the labor question. So far, the automobile companies seem to be willing to present a "united front" of resistance to union demands. However, they have been operating without labor contracts for some months now, since offers by the Big Three to extend the old contracts were

rejected. The UAW's plan of attack seems to have been an avoidance of a showdown until the new models were in production. If the union feels strong enough to strike, this might be the logical time to do so. Indeed, the occurrance of wildcat strikes is becoming more frequent and more significant as each week passes. There is an explosive quality in this situation.

The second problem the auto industry faces is that of public acceptance of the new cars. Increasing consumer resistance to higher prices and longer, lower, more powerful (and more costly to maintain) autos have become a real worry. The influx of foreign cars is beginning to represent a serious inroad. On the more favorable side, however, is the fact that much auto debt of recent years is paid off and dealers' inventories are down.

Steel Prospects

While steel is heavily dependent on the automobile industry, other sources of demand appear to have strengthened recently. With the increasing support of its other customers — construction, oil country, farming, and shipbuilding, a moderate degree of recovery in the steel industry is now taking place.

To some extent, adjustments within the industry are being made to compensate for the profit squeeze now in evidence. There exists the possibility of mergers among the secondary companies as an attempt to offset rising costs.

While the near-term outlook for some steel-buying industries is doubtful, demand may be well sustained in certain areas of current strength.

At present, steel shares generally are selling at historically high prices relative to earnings. Aside from inflation fears and speculative activity in the market, one reason for this generous capitalization of steel company earnings may well be a broadened investor interest, generated by the wider use of steel today and the realization that the industry has attained a measure of independence from the sharp cyclical swings of the past. **END**

How much pick up ahead for Tire Companies?

(Continued from page 687)

year, shipments of replacement tires totaled nearly 31 million, compared with less than 30 million during the same period of 1957. Second quarter shipments were nearly 10 per cent higher than the second quarter total for 1957. Aiding this gain in sales was the steady rise in number of passenger vehicles on the road. There are currently nearly 53 million cars in use, or about 2 million more than last year. The average American apparently regards his car as a necessity, and continues to use it even when economic conditions are bad, though in a deep recession, shorter and fewer trips would undoubtedly be the result. The 8 million cars produced in record-breaking 1955 is also helping to swell tire sales, since owners of many of the cars produced in that year are now finding it necessary to replace original equipment tires.

High speed driving on turnpikes and freeways is also contributing to more rapid replacement of tires, since tires wear out much more quickly when a car is driven at 60 miles than at 35 miles an hour.

The recovery of the farm economy has also been a factor in the tire industry's ability to resist the recession better than most. Sales of farm replacement tires this year are expected to exceed 1.7 million, largest total in 10 years. In the first half, the industry shipped more than 1 million tires to the farm market, as against less than 850,000 in the same period of last year. Last year 1.5 million tires were shipped to the farm market

What Help From Diversification?

The tire companies have large operations in chemicals, defense equipment and other non-tire fields. The revenue derived from these operations has also declined, due to the recession, and the drop in military purchases during the last year. But any erasing of the recession, will mean better prices for chemicals and also better earnings, while military procurement is on the way up. Hence, earnings derived from non-tire operations should improve slightly, at least.

Introduction of new items, such as the widely heralded air suspension systems in autos, has not met with the expected results during the recession. Sales of the rubber air-bellows suspension systems to auto companies have fallen far below expectations, owing to technical difficulties and high prices to the consumer. Polyurethane is making progress, but it is competing with another rubber product—foamed rubber—in some markets.

Material costs of rubber companies have been held in check during the recession. Natural crude rubber is currently selling at several cents a pound below last year's prices. While synthetic rubber now accounts for over 60 per cent of new rubber consumption, the moderate dip in natural rubber helps to ease the cost-price squeeze. Prices of rayon and nylon are also averaging lower this year than in 1957. But keen price competition in tire markets and higher labor costs have more than offset these moderate cost reductions.

Individual Companies

Earnings of the Big Four companies have varied widely this year, depending on the degree of diversification, export volume, etc. In general, the profit decline has far exceeded the drop in sales volume. But on any improvement in sales, earnings rise faster than billings.

Goodyear, the world's biggest fabricator of tires and of rubber, reported sales of $648,031,308 in the first half against $721.0 million in the same period of last year.

Second quarter earnings of Goodyear were better than in the first quarter. Second quarter net was $1.55 a share, against $1.80 in the same period of last year, and $1.03 a share in the first quarter of this year. For the first half, net was $2.57 against $3.47 per share in the same period of last year.

Goodyear is estimated to derive 60 per cent of its volume from tire sales. It is sole supplier of Chrysler, and would benefit substantially from any improvement in Chrysler's outlook. Present earnings appear to make the current 60 cent quarterly dividend

look safe, though the 2 per cent stock extra paid late last year may not be declared this year.

B. F. Goodrich also showed a substantial gain in net in the second quarter, reporting earnings of 90 cents a share in the second quarter, as against 70 cents in the first quarter. Sales for the first half were $333.9 million, against $366 million in the same period of 1957, a decline of 8.8 per cent. Net for the first half was equal to $1.60, against $2.21 per share for the same period of last year. Sales to the Federal Government were only 5.5 per cent of total sales, against 6.2 per cent in the same period of last year. Goodrich is concentrating heavily on the growth of chemicals, plastics, industrial items, etc. Like other Big Four companies, it has a big capital investment program, to take care of future growth. It is a heavy supplier of General Motors and Ford, and should benefit by GM's good line for 1959.

Firestone reported net sales for the six months ended April 30 of $490.8 million, against $550.4 million in the same period of last year. Net per share was $2.52, against $3.44 a share in the same period a year ago. It is likely, however, that the six months ending Oct. 30 next will show a gain in sales and earnings over the first six months of the fiscal year.

Firestone, like Goodrich, has a large chain of retail stores, and benefits from this vertical integration. It, too, has a big capital investment program in growth lines.

U. S. Rubber, last of the Big Four, is sharing in the industry's upturn, after a disappointing first quarter in which it earned only 44 cents a share, or 6 cents less than its 50 cent dividend. But its earnings have improved smartly. It is an even larger supplier of General Motors than is Goodrich, and expects to score heavily during the rest of this year, if GM's "all-new" lines of cars have a successful acceptance. Despite the poor first quarter, net this year may come close to $3 a share, against $4.27 last year, which included 61 cents in special income. Hence fears over U. S. Rubber's dividend have been eased somewhat in recent months.

General Tire has a smaller proportion of its sales in tires than any of the Big Four. Its Aerojet-General subsidiary is a large and growing factor in missiles and missile propellents. Its earnings this year are falling well below the $2.12 a share reported for the fiscal year ended last Nov. 30. This results not only from reduced tire profits, but from special expenses at a new synthetic rubber plant and charges resulting from the withdrawal of RKO Teleradio from the film field. The company has broad diversification in special situations, including ownership of a subsidiary which operates a chain of radio and television stations, and a 73 per cent voting interest in A. M. Byers Co.

Dayton Rubber, is scoring a sharp comeback in the second half of the fiscal year ending Oct. 31. Results may well equal those shown for the last fiscal year, in spite of special charges which caused a sharp dip in net in the first half.

Lee Rubber, has also maintained its earnings to a better degree than have major tire companies. It is well-diversified in replacement tires and mechanical rubber goods. The boost in tire prices can be of greater assistance to companies such as Lee and Dayton than it is to the major producers. Hence, it is likely that Lee's earnings for the fiscal year ending Oct. 31 will be only slightly under the $2.09 a share reported for the last fiscal year.

Seiberling Rubber is primarily a tire producer, with nearly 78 per cent of its volume from this source. It reported a loss in the first quarter of this year, but has since been doing better. Efforts of outside groups to take control of the company from Edward Lamb's group may help the market action of the stock.

The readjustment period of the rubber and tire producers may have been shortened by the recent slight upturn in auto sales and in replacement tire sales in the second quarter. The industry has a good growth record, and while it offers attractions for the long term, prospects have been discounted, and the more attractive companies are selling at prices which yield a very low return. The general trend of business will determine whether the tire companies' recovery of the second quarter will continue into next year. END

Specific Legislative Gains . . . and where Congress Left Us Holding the Bag

(Continued from page 669)

groups, and a 90 per cent top bracket. That's what the books say, but the collector's records show that persons in the $4,000-$5,000 bracket pay an average of 8 per cent, and those with incomes of $100,000 or-more pay an average of 40-50 per cent. So it will be seen that the system is essentially unrealistic: a 20 per cent tax, with exemptions, would be impossible in the class it affects; a 90 per cent tax in the high bracket would be plainly confiscatory. So, the government chips away, grants exemptions, allowances, depletions, etc. and in the practice has invited the greatest system of tax dodges known to the world. When the committee launched what was to be a disappointing incursion into the subject of loopholes, Rep. Aime Forand spoke words of hope:

"Some of the more important unintended benefits which this bill will remove are: special benefits derived by holding various types of stock for only short periods of time around dividend dates, the double benefit from

gifts in trust to charity where remainders go to closely related persons, double interest and charitable deductions with respect to the same amounts, the special advantages from writing bond premiums off over relatively short periods where the bonds have early call dates, advantages derived by part-time employees of exempt organizations from deferring tax on their salaries by taking it in the form of annuity contracts, the conversion of ordinary income into capital gain income by purchasing bonds with coupons attached, and other things."

The committee chairman had only scratched the surface. Other members were to come in with proposed legislation to remove the tax from heavily funded "Foundations" which have deviated from the concept Congress had in view when that exemption was created; removal of the tax exemption from cooperative business enterprise whose operations compete with private business; new tax treatment to increase the Treasury income from mutual savings banks, building and loan associations, and credit unions. Sponsors foresaw at least $1 billion of income not realized today by the Government.

Lower depletion allowances on gas and oil had the capacity to bring in more revenue. This was the one major new source which came to a vote during the session: it was rejected in the Senate by a vote which encourages the sponsor, Senator William Proxmire to plan re-introduction next year.

Attack was to be made on quick write-off allowances for federal tax purposes when industry develops plant capacity capable of military use. It didn't materialize. Portions of facilities never intended to be used to serve defense still come under the fast amortization program and will continue to do so.

Defense

Congress voted about $1 billion more for defense than the President requested and then placed mandatory minimum strengths on the reserve components of the Army. President Eisenhower, signing the bill, lashed out: "Rigidity and waste will be the products of these limitations and there is no place for either in the program of a modern defense establishment." Ike spoke with a knowledge that a budget higher by several billions than the one of only five years ago will not provide more defense, either in hardware or manpower. Wages and material costs have zoomed procurement expenses more rapidly than Congress can boost funds. The money being spent now was largely appropriated in previous years, some as long ago as 4-5 years; it won't buy nearly as much material now as it would have covered on the day of appropriation. The almost $40 billions for direct defense granted in the latest bill will be disbursed in future years—and it probably won't buy nearly as much as appears in the procurement planning books today.

Every branch of the service was given more than it requested in obviously "fattened" estimates of its needs: The Air Force will get $17,877,624,000, compared with a requested $17,652,854,000; the Army, $8,992,859,000, compared with a requested $8,953,535,000; the Navy and Marine Corps, $11,359,427,000, compared with $10,870,181,000 requested.

Had the defense appropriation bill been enacted several weeks earlier, the President probably would have vetoed it. He took that step when the general departmental appropriations bill came to him with $559 million added to the civil service retirement fund — needlessly, he thought. Congress reluctantly rewrote the bill to conform to White House demands and saved half a billion dollars.

Hinting that the defense contract renegotiation bill may be drastically changed early in the next session, the lawmakers extended the present bill for six months. This law has left contractors in a state of uncertainty over earnings, what they may do in the line of plant or other expansion and research — sometimes as long as 4 years after delivery under the terms of their contracts. Recaptures of "excess profits" have been unpredictable in amount and form the basis of several appeals now being processed.

Ethics in Government

Congress did nothing about bills legislating ethics into government office, requiring disclosure of financial interest by congressmen and other highly placed persons, "clean elections," exercise of political pressure on regulatory bodies, or supplementary laws dealing with subversion and internal security. END

Highly Diverse Earnings Prospects for Auto Parts Makers

(Continued from page 691)

making lighting systems, bearings, bodies and frames, transmissions and almost every other type of component. In addition, however, GM purchases parts on the outside to complement its own facilities. Chrysler has extended integration in recent years through acquisition, such as the absorption of Briggs Manufacturing's body business.

Chrysler has announced plans for undertaking production of its own frames after the 1959 model run ends next summer. This step will mean loss for **Midland-Ross** of a major customer. Before consolidation with Ross Engineering Corp., which had been engaged in installation of atmospheric control equipment in industrial plants, Midland Steel Products had been one of the leading manufacturers of automobile frames, especially for Chrysler models. Diversification in other fields has been undertaken to soften the impact of contraction in automotive contracts. As a matter of fact, development of the unitized body in recent years has posed a threat to the frame business. If the industry decides to replace frames with a one-piece body assembly in the interest of economy, it would prove a serious blow to specialists such as Midland-Ross, **A. O. Smith** and **Dana Corporation**, principal suppliers of frames.

Incidentally, significant changes in items such as bumpers and springs often have more than ordinary effect on manufacturing activities of parts companies. As a case in point, the tendency toward adoption of heavy "wraparound" bumpers in post-Korean passenger cars contributed to an upsurge in business for **Rockwell-Standard**. Enlargement of windows and windshields has proven a boon to Libbey-Owens-Ford and Pittsburgh Plate Glass, principal

suppliers of safety glass for the industry. Modifications of spring assemblies likewise have an impact on operations of **L. A. Young Spring & Wire** as well as on Rockwell. Not always are changes in styles favorable to parts makers.

Although the threat of integration is more compelling than ever as manufacturing costs continue to mount, in reflecting advances in wage rates as well as in prices of essential raw materials, this factor is considered one of the normal risks of doing business and is well recognized by parts makers who have had to contend with it for a generation. To remain a supplier of components to one of the "big three" motor car makers an accessory manufacturer knows that he must become a specialist in production of an essential part—such as a muffler, exhaust pipe or a differential, axle, etc. In such a situation it is necessary that a parts maker adopt every conceivable cost-reducing method so as to be able to quote the lowest possible prices to major customers and still retain a satisfactory margin.

As long as an accessory company can successfully produce components more economically than one of the "big three" by means of economies made possible by large volume, the threat of integration is more imaginary than real. Records show, however, that the business is highly competitive and that maintenance of efficiency in manufacturing is essential to success.

Consolidation & Diversification

With the spread of organized labor into small plants outside the highly industrialized Middle West, manufacturing costs may be expected to climb further and the problem of competition in small plants will become increasingly intense, accelerating a trend toward consolidation with large competitors. Moreover, engineering progress promises to bring about significant changes in design and production of motor cars over the next few years. These factors could have a vital effect on the welfare of parts manufacturers which have concentrated on a comparatively few lines.

Houdaille Industries and **Stewart-Warner** represent examples of companies which have acted vigorously to minimize dependence on the automotive industry. The former has expanded in production and distribution of equipment and materials for use in highway construction and now derives only about half of sales from automotive products. Stewart-Warner has reduced its proportion of automotive business to less than 20 per cent of total volume. **Kelsey-Hayes** has ventured into manufacture of components for jet engines for the aircraft industry. **Budd** long has had an important part of the railway passenger car business and considerable volume in other non-automotive lines. **Motor Wheel** has branched out recently in production of power lawn mowers, air conditioners, furnaces, incinerators and similar items in an attempt to gain greater stability in production schedules.

Summary

In summary, experience has shown that the auto accessory business is more keenly competitive than many other industrial lines and is vulnerable to sudden changes in styling or engineering developments. Yet it can prove highly profitable with development of new ideas — such as the automatic transmission, self-starter and other innovations of the past — at least under favorable economic conditions. Economies in production attainable on large volume can also have a favorable impact on profits.

Looking ahead to the 1960's, when increases in the twenty-year-old age group may spark demand for motor cars, the possibilities for aggressive parts manufacturers should prove interesting. END

Sales Battle Looms on 1959 Cars —Who Will Win?

(Continued from page 685)

into the Studebaker picture of the Sonnabend interests should, however, mean a more determined effort to end losses, even if this entails more attention to non-automotive lines. For the first half, S-P's deficit was $13.3 million, against a deficit of $6.8 million in the first half of 1957. Dropping of the larger Studebaker and Packard lines should cut these losses substantially, and may result in achievement of a break-even level of operations for the first time in several years.

Dynamic Obsolescence

The auto industry, technologically, is still moving ahead, in spite of some mistakes made in recent years. It is managing to maintain its policy of dynamic obsolescence, although the latter has come under heavy fire from some consumers who would prefer to see lower prices for cars, instead of annual styling changes and engineering improvements. The auto makers, for example, are working hard on new light aluminum engines, which may be ready in a year or two. New types of transmissions, and suspensions and frames are also being introduced. Glass and rubber are being given bigger jobs in each new car. Every part of the car is being studied intensively with an eye to improving it.

The public, or at least one articulate segment of the public is still asking whether it is not paying too high a price for such technological progress, in view of the fact that small European economy cars can be bought for around $1500. In 1959, the American car producers hope to prove that their concept of the consumer's needs and wants is correct. In a rising economy the Big Three producers believe that the public will buy more large, long luxury cars of the 1959 vintage. END

First Hand Report in Depth-on the Emerging Problems of the Air Lines

(Continued from page 665)

The leasing arrangement covers the turbojets for the Boeing and Convair jet airliners which are made by Pratt & Whitney and General Electric. Allison has also agreed to lease the power plants (turboprops) supplied to the Lockheed Electra.

Labor and Other Problems

Plenty of irritating problems will beset the airlines before their jet re-equipment program is in operation. Labor difficulties are only one. Recently one company negotiated a contract with the Airline Pilots Association which provided for a salary of $27,000 for senior pilots. This is $8,000 over the present scale for flying

the same route. Another company agreed to pay flight engineers $1,500 per month. $1,200 is the present salary. The mechanics, the ticket agents, and the stewardesses will expect comparable increases.

The sudden retirement of great numbers of piston-engined equipment will mean a great depreciation in their value. Overseas and feeder airlines, once an excellent market for used airliners, are now being offered the British Viscount and the Fairchild Friendship airliners at very reasonable cost and terms.

Another disquieting factor has entered the picture via a suggestion to put a heavy tax on jet fuel which has heretofore been untaxed. Under normal cruise conditions, the big Boeing 707's will consume 2,000 gallons of kerosene an hour. This compares with 400 gallons of high test gasoline an hour for present day four-engine aircraft.

This proposed new tax would start with a tax of 3½ cents per gallon with increases up to 6½ cents per gallon by 1962 when the airlines will be using enormous quantities of jet fuel. If there are any inherent economies in the new fuel, this tax would end them abruptly.

Only 27 cities have airports capable of handling jet airliners. However, these cover 60 per cent of the passenger "market." One new modern airport is building for Washington, D. C. Over a dozen municipalities are planning to lengthen their airports' runways to accommodate the new turbojet airliners. In general, longer landing strips will be a must for the new, speedier planes.
—END

For Profit and Income

(Continued from page 693)

crease from roughly $6.9 billion in six years since 1951. They were invested to the extent of 24.7% in common stocks, against 11.8% in 1951 — in dollar total, nearly $4.8 billion at the close of 1957, compared with $812 million in 1951.

Bank Stocks

Bank earnings this year will differ little from 1957's satisfactory level. Loans are down, investments (mainly in shorter-term Treasury obligations) up sharply. Rising interest rates will help over the rest of the year; and extension of the business recovery will in time bring a rise in loans at higher average rates. Dividends are secure, yields fair, possibilities for capital gain modest. Among the best issues for conservative investment, to name just a few, are Guaranty Trust, First National City, and Manufacturers Trust.

Advanced

Rail stocks now no great distance under their 1956 or 1957 bull-market highs, and having good chances to get to new highs within something less than a vague "long-term" period, are Chesapeake & Ohio, Denver & Rio Grande, Great Northern, Norfolk & Western, Northern Pacific, and Southern Railway.

Depressed

Some deeply depressed, quite speculative rails which might have sharp percentage rises in a full cycle of business recovery are: Erie, Gulf, Mobile & Ohio; Illinois Central, Missouri-Kansas-Texas, Rock Island, and St. Louis-San Francisco. Among the medium-depressed rails with potentials for considerable further cyclical recovery over a period of time are: Atchison, Coast Line, B. & O., Louisville & Nashville, Sopac, Seaboard, Western Maryland, and Western Pacific. Rails should be bought, if bought at all, to sell — not to "put away". And we don't see need for any rush to buy any of them right here.
—END

As I See It!

(Continued from page 657)

free to devote its energies to fighting inflation and deflation in the interests of the Canadian people.

U. S. Treasury Reservations

Our Treasury officials reportedly doubt the workability of the Canadian plan in the U. S. For one thing, they point out that there are fewer than a dozen chartered banks in Canada, against more than 13,000 commercial banks in the U. S. They add that the smaller number of Canadian banks are more subject to influence by the Canadian debt management authorities. Treasury officials sum up: "With the thousands of commercial bank holders of Government securities, we would run the risk of failure. And we couldn't order them to swap their securities."

Perhaps this caution is justified. But it is more likely that what is needed at this juncture is boldness not timidity, a willingness to look at the possible gains rather than to concentrate on the possible losses. Maybe we need a rebirth of the imaginative thinking of 1951 when, to cushion the impact of the unpegging of the bond market, the Treasury offered 2¾% nonmarketable 29-year bonds in exchange for $19.7 billion outstanding 2½% marketable bonds due June and December 1967-72. Not all of this offer was accepted; indeed, only $13.6 billion of the 2½s were converted. But nobody considered this operation a failure. On the contrary it was hailed as a notable success, relieving the weight of marketable bonds overhanging the market and greatly improving investor and dealer confidence.

What we need now is a bold step to show that the Treasury is still in command of its own fate.

Why Not Refund F and G Savings Bonds?

One healthy step would be for the Treasury to make a refunding offer to all holders of series F, G, J and K Savings bonds, of which approximately $9.5 billion are still outstanding and cashable on one or two months notice. They represent a potential demand liability to the Treasury which ought to be eliminated, as the Treasury itself recognized when it withdrew series J and K bonds (successors to the original F and G series) from sale in April 1957.

What has happened in the past is that people of substantial means bought F and G bonds, yielding about 2½% for twelve years holding, and J and K bonds which yield 2¾% when yields on marketable obligations were unattractive. Then when tight money conditions arose, yields on marketable bonds went well be-

(Please turn to page 712)

yond $2\frac{1}{2}$ or $2\frac{3}{4}$% and at a time when the Treasury could least aord it holders of F, G, J and K Savings bonds turned their bonds in for cash redemption to invest in other securities. Thus during the money squeeze of 1957 redemptions of F, G, J and K bonds cost the Treasury no less than $4 billion. Even in the first six months of 1958—an easy money period—redemptions totaled $1.5 billion. It makes no sense for the Treasury to stand by while this cash drain goes on.

The Treasury took a limited step August 18 when it began permitting individual and personal trust estate holders of maturing F and G bonds to exchange up to $100,000 a year into series E and H Savings bonds which pay $3\frac{1}{4}$% for nine or ten years holding. This is a move in the right direction but did not go far enough to have any real effect, for (1) Only maturing F and G bonds are eligible; (2) the cash drain of early redemptions of unmatured bonds, which represent half the Treasury's problem, remains unsolved; (3) Only the $4.3 billion F and G bonds held by individuals and personal trusts are eligible; (4) 2.7 billion F and G bonds held by others, and all of the $2.5 billion J and K bonds outstanding, for a total of $5.2 billion, are left for redemption in cash. Finally, and most important, giving F and G bondholders E and H Savings bonds in exchange is simply to give them one demand-type obligation instead of another and at a higher interest rate at that.

The time is past when we can afford half-measures. The only thing that will prevent large demands for cash at inconvenient times for holders of F, G, J and K bonds is to persuade them, by offers of attractive rates and terms, to exchange into intermediate 10 to 15-year obligations which are marketable but which are *not* redeemable whenever the holder sees a better investment opportunity.

This will cost more than the $3\frac{1}{4}$% paid on E and H Savings bonds. But it will be effective. It will also serve as a pilot operation for still further funding, on the model, though not necessarily on so ambitious a scale as the Canadian plan. Getting the debt into better shape, and the budget back into balance is not easy. But it is the only way unless we want to see the day when the United States joins France, Finland, Mexico and other nations which are unable to sell bonds unless they are tied to the price of coal, electricity, common stocks or gold. We need to bear in mind that confidence in a nation's fiscal integrity is worth going to some trouble and expense to maintain; once lost it is not easily or quickly regained. END

Trend of Events

(Continued from page 656)

our time.' Already the Greeks have rejected the partnership plan that MacMillan seemed so sure they would accept. And so it goes on—but to what end?"

This type of disillusionment and fear of appeasement is rampant among the thinking people in the Western countries, who recognize that only a strong policy and action is the answer to the Communist threat.

We can be certain that the Reds will step up their propaganda in shrieking threats regarding any steps we take in defense — pressing every tiny advantage, and making it look as though it were an important victory. But by now we ought to be inured to communist tactics, and answer these threats with common sense action based on the realities of the situation.

We should respond by using our heads, remembering that Red China is not prepared to fight a war with the United States, that she has too much to lose by starting one. Although Russia is certain to assist her with propaganda and military support of various sorts, she is bound to discourage anything that would lead to all-out war in which the Soviet Union would be involved. The difficulties would be insurmountable. It would call upon Russia to defend her vast areas and seriously support China whose roads and communications are limited and where the food supplies are inadequate even in peace time.

The problem of supply would be so terrific as to make such a war highly impractical from the Russian as well as the Chinese point of view. The use of atomic weapons would bring the war right into the heart of the Soviet Union, and put such a crimp on communism that it could never rise again. END

Answers to Inquiries

(Continued from page 700)

that a rise may follow in the fourth quarter. The company expects to experience an improvement in earnings in the last 3 months of this year due to higher sales and substantial cost reduction. However, earnings for the fiscal year ended November 30, 1958 are expected to be sharply lower than the $4.25 per share for fiscal 1957.

Dividends of $2.20 per share were paid last year and 55 cents quarterly has been paid thus far in the current year.

Book Review

The Sergeant

By DENNIS MURPHY

In The Sergeant Dennis Murphy has produced a finished, authoritative work of fiction—one that can stand comparison with the work of experienced writers many years the author's senior—in dramatic impact and its undeviating progression to its clearly conceived goal.

The Sergeant is an intense, beautifully controlled, and tremendously effective story of the struggle for a young man's soul—the struggle between his unwilling attraction to a powerful and possessive older man and his idyllic, tender love for a girl. The boy is an American GI at a postwar Army base in France; the older man is his sergeant, who, out of his loneliness and need, tries to take possession of him; Solange is the young and attractive French girl with whom he falls in love. It is not until the relation with the sergeant comes to a head in violence that he is able to free himself for the girl; and the story is resolved in a moving scene that holds both tragedy and fulfillment.

Viking $3.50

A Personal Service...For The Investor With Securities Worth $20,000 or More

The recession has bottomed out! Glad tidings of a pick-up in numerous companies is being welcomed. Yet, drab news of continuing slack — even further earnings decline is still appearing elsewhere.

This is truly a time when every security you own will require careful reappraisal.

You will want to sell or avoid issues that have now advanced to prices not justified by 1958-59 prospects — issues that may be hit by the increased wave of 1958 dividend casualties — companies losing out in the competitive race.

You will want to buy and hold companies financially strong with the managerial ability to secure a full share of defense orders, public works contracts, huge consumer spending. Their earnings-dividend outlook may also be brightened as beneficiaries of amazing new scientific achievements and technological achievements.

With business and security prices in the throes of adjustment to new conditions, you have much to gain from Investment Management Service—which has successfully aided investors in markets of every type to protect and build their capital and income . . . looking to future financial independence.

Expert Analysis of Your Present Holdings:

Our first step in serving you is to make a detailed report—analyzing your entire list—taking into consideration income, safety, diversification, enhancement probabilities—today's factors and tomorrow's outlook.

Issues to Hold and Advantageous Revisions:

Definite counsel is given on each issue in your account . . . advising retention of those most attractive for income and growth . . . preventing sale of those now thoroughly liquidated and likely to improve. We will point out unfavorable or overpriced securities and make substitute recommendations in companies with unusually promising 1958 prospects and longer term profit potentials.

Close Continuous Supervision of All Holdings:

Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. *It is never necessary for you to consult us.*

When changes are recommended, precise instructions as to why to sell or buy are given, together with counsel as to the prices at which to act. Alert counsel by first class mail or air mail and by telegraph relieves you of any doubt concerning your investments.

Complete Consultation Privileges:

You can consult us on any special investment problem you may face. Our contacts and original research sometimes offer you aid not obtainable elsewhere—to help you to save—to make money.

Help in Minimizing Your Taxes:

We keep in mind the tax consequences of each transaction and help you to minimize your tax liability under the new tax provisions. (Our annual fee is allowed as a deduction from your income for Federal Income Tax purposes, considerably reducing the net cost to you.)

Annual Personal Progress Reports:

Throughout the year we keep a complete record of each transaction as you follow our advice. At the end of your annual enrollment you receive our audit of the progress of your account showing just how it has grown in value and the amounts of income it has produced for you.

Full information on Investment Management Service is yours for the asking. Our rates are based on the present value of securities and cash to be supervised—so if you will let us know the present worth of your account—or send us a list of your holdings for evaluation—we shall be glad to quote an exact annual fee . . . and to answer any questions as to how our counsel can benefit you.

INVESTMENT MANAGEMENT SERVICE

A division of THE MAGAZINE OF WALL STREET. *A background of fifty years of service.*

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